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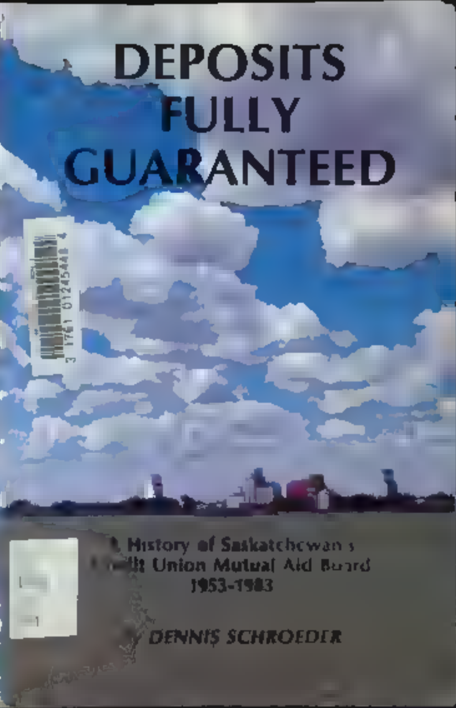

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A History of Saskatchewan's Credit Union Mutual Aid Board 1953-1983

By DENNIS SCHROEDER

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DENNIS SCHROEDER

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Preface and Acknowledgements

When Ed Cunningham assumed the position of director of Saskatchewan's Credit Union Mutual Aid Board from Paul Dosch in 1982, Dosch passed on to him a "symbol" of the authority of his job — a fireman's hat, complete with a flashing light and a Mutual Aid Board logo. While the Mutual Aid Board is not exactly the "fire department" of the credit union system, there are some similarities. Like a fire department, the Board does respond to emergency situations in credit unions when there is a possibility that the shares and deposits of credit union members may be placed in jeopardy. Also, like an efficient fire department, the Board has developed a set of measures designed to prevent future crises. Unlike a fire department, the Mutual Aid Board doesn't just fight "fires"; it also serves as an insurance company that provides a guarantee against potential losses.

This book is an account of the history of the Mutual Aid Board, which pioneered the concept of deposit protection within the credit union movement in North America and has been a leader in refining and developing that concept. In May, 1983, the Mutual Aid Board marked its 35th anniversary, making it the oldest continuously operating credit union deposit protection fund on the continent. In that same month, provincial legislation was amended to permit the Board to assume a new name that more clearly identifies its primary function — the Credit Union Deposit Guarantee Corporation. The name change may signal the beginning of a new era in the life of a body that has matured and is playing an increasingly important role in the credit union system of Saskatchewan.

One note on the name: since this book describes the history of the organization during its first 30 years when it was known as the Mutual Aid Board, that name is used throughout the text.

The reader who knows little or nothing about the Mutual Aid Board can find in Chapter 1 a brief description of what the Board is, what it does, and how it fits into the overall credit union system. A reading of the other five chapters will provide an understanding of how the Mutual Aid Board developed during its first 30 years. Chapter 2 sets the stage by tracing briefly the development of the co-operative and credit union movements both in Saskatchewan and elsewhere. The actual history of the Mutual Aid Board begins in Chapter 3, where the formative events of the 1950s are described. For the most part, developments during the 1960s are covered in Chapter 4, while the events leading up to the highly significant legislative amendments of 1977 are covered in Chapter 5. In the final chapter, several issues and developments that helped to shape the Mutual Aid Board during the 1970s and early 1980s are singled out for special attention.

While a particular perspective has been imposed on this historical account by the author, the book is based on many bits of information gleaned from research and from discussions with people actively involved in the development of the Mutual Aid Board and related credit union organizations. I would like to thank the members of the book advisory committee for their guidance and assistance in making this project a reality. They are: Eldon Anderson, corporate secretary and manager of public affairs with Credit Union Central of Saskatchewan; Ed Cunningham, director of the Mutual Aid Board; Norm Bromberger, chief executive officer of Central; and Les Tondler, president of Central and general manager of Sherwood Credit Union in Regina. The latter two are also members of the Mutual Aid Board. Special thanks to Eldon Anderson also for making available photographs from his extensive collection.

Others who shared their insights and perceptions with the author include: John Barr, the first manager of the Mutual Aid Board; Vic Keep, chairman of the Board; Dale Folstad and Morley Meiklejohn, who represented, respectively, the Department of Co-operation and Co-operative Development and the Department of Finance on the Board; Peter Wouters, Central's vice-president in charge of Mutual Aid Board operations; Greg Wallace, Doug Glessing and Gail Dell, the other members of the Mutual Aid Board management team; Al Mulholland, Glen Robinson and Walter Safinuk of the Department of Co-operation and Co-operative Development; Al Charbonneau, chief executive officer of the World Council of Credit Unions, and Baldur Johnson, chief executive officer of Credit Union Central of Alberta, both of whom played an important part in the development of the Mutual Aid Board and the Saskatchewan credit union system during the 1960s; Con Flemel and Bill Rossmann, former leaders of St. Gregor Credit Union; Mike Kinaschuk of Arran Credit Union; Leon Breton, formerly manager of Unity Credit Union; Barney Arnason, for many years Deputy Minister of Co-operation and one of the pioneers of the credit union movement in Saskatchewan; Ross Mont gomery, general manager of the B.C. Credit Union Reserve Board; Del Ross, who was associated with the CUNA stabilization fund in the United States, and Joe Dierker, legal counsel for the Board.

I would also like to thank Jim Duggleby, editor of *Credit Union Way* magazine, for his forbearance and patience, and for rescheduling magazine work assignments to allow me time to work on this project. In addition, the encouragement and understanding attitude of my wife, Stephanie, were of great assistance.

While a book of this size cannot be a complete history of the Mutual Aid Board, and perhaps does not do justice to all the people involved in developing the Board, I believe it does help to fill a gap in the recorded knowledge of Saskatchewan's credit union system. If it helps in any way to increase the reader's understanding of one of the most vital aspects of the credit union system — the deposit protection function — then the efforts made to produce this book can be considered to have been worthwhile.

Dennis Schroeder
July, 1983

A Chronology of Events Affecting the Development of the Mutual Aid Board

1950 — Defalcations discovered at Arran and St. Gregor credit unions.

1951 — "St. Gregor fund" set up by Credit Union League of Saskatchewan, permanent stabilization fund proposed.

1952 — Amendment to Credit Union Act passed by Saskatchewan legislature creating Mutual Aid Fund. Fund approved overwhelmingly in a poll of credit unions.

1953 — Provincial government order-in-council May 8 establishing Mutual Aid Board to administer Fund. First Board meeting May 22. Gordon Nielsen elected first chairman.

1954 — Interest-free loans to St. Gregor and Arran credit unions are first financial assistance provided by Board.

1959 — Grants to St. Gregor and Arran credit unions, ending their financial difficulties.

1961 — League sets up collection service. Board later contracts its services in dissolution of credit unions.

1962 — Credit union submissions made to Porter Royal Commission on banking. Commission recommends mutual aid funds for all credit unions. Revised Credit Union Act passed, permitting revolving fund, and permitting Board to act as liquidator of credit unions.

1963 — League sets up Development Fund with financial assistance from Mutual Aid Board.

1964 — Mutual Aid Fund reaches $1 million, and revolving fund begins.

1967 — Canada Deposit Insurance Corporation established. Credit union stabilization funds denied membership. Carter Royal Commission recommends taxation of credit unions.

1970 — Amalgamation of League and Saskatchewan Co-operative Credit Society completed.

1971 — Role committee set up, with representation from Mutual Aid Board, Credit Society and government. Consultations are continued by a variety of committees and task forces.

1972 — New Income Tax Act introduces taxation of credit unions. Revised Credit Union Act passed in legislature; revolving fund terminated, new assessment formula adopted; Board becomes involved in bonding and insurance; Central Credit Committee established; Board given supervision powers. Management contract with Credit Society replaces nominal administration fee.

1973 — Unity Credit Union first to be placed under supervision. Financial difficulties resolved successfully.

1974 — Mutual Aid Board arranges lender-of-last-resort facility with CDIC. New supervision, amalgamation, financial assistance, investment policies drafted for Board. "Probability of distress" computer model first used on Mutual Aid Fund.

1977 — Credit Union Act amended: unlimited guarantee of shares and deposits formally stated for the first time, and Board powers expanded and clarified. Integrated Monitoring System begun as pilot project and expanded in later years.

1978 — Credit Union Central reorganized to create MAB Division. John Barr appointed first manager of Mutual Aid Board.

1983 — Board adopts trade name Credit Union Deposit Guarantee Corporation.

CHAPTER ONE

The Mutual Aid Board: What is it?

In 1967 a worried credit union member in Saskatchewan wrote a letter to the Credit Union League of Saskatchewan. In the letter he said: "My wife and I have over $6,000 invested in our credit union. We recently lost $2,000 we had invested in a finance corporation in Ontario and as a consequence have 'cold feet.' Would you please let us know just how safe our money is."

The League's managing director, Baldur Johnson, personally replied to the man. He wrote: "Since Saskatchewan credit unions began in 1937 no member has ever lost one cent in deposits or share capital." He went on to list a variety of reasons for this achievement and concluded his letter by saying, "By reason of our past record and the safeguards which have been built into credit union operations, I am confident that the money you have invested in your credit union is safe."

The concerns expressed by that man in 1967 have been felt by numerous other people as well. But the reply by Johnson could still be made today: no credit union member in Saskatchewan has ever suffered a loss of deposits or shares. In fact, since 1967, safeguards protecting members' money have become more comprehensive and more sophisticated.

One of the major reasons for this remarkable achievement by the Saskatchewan credit union system is the work of a little-known body called the Credit Union Mutual Aid Board (MAB), which administers the Mutual Aid Fund. The primary task of this body is to guarantee the deposits of all credit union members in the province, and it has carried out this task successfully since it was established in 1953.

The credit union

The Mutual Aid Board is one vital element in the total credit union system, which is really an integrated network of institutions linked together in a variety of ways. The basic organization — the one that most people deal with on a day-to-day basis — is the credit union.

A credit union is a particular type of co-operative organization that provides a range of financial services to its members. The services are similar to those of most other financial institutions, such as chartered banks, trust companies and finance companies. Credit unions accept deposits of money, through a variety of types of deposit accounts, and they lend money. They also offer services such as safety deposit boxes, traveller's cheques, money orders, and much more. In fact, several of the services now commonly provided by Canadian financial institutions, such as daily interest savings accounts, were pioneered by credit unions.

The primary difference between credit unions and other financial institutions is in their purposes. Most financial institutions are set up as business corporations intended to earn a profit for their shareholders. In the case of credit unions, all the people who make use of their services are also member-owners, so credit unions are essentially non-profit organizations providing services to their members at the lowest possible cost.

A credit union is a corporation established, in Canada, under provincial legislation and operated by people in accordance with the principles and philosophy of the co-operative credit union system. The Credit Union Act in Saskatchewan, passed in 1937, described the purposes as follows: "The objects of a credit union shall be the promotion of thrift among its members and the creation of a source of credit for its members, at legitimate rates of interest, exclusively for provident and productive purposes."

The commonly accepted principles that guide credit unions include the following:

- Membership is voluntary and there is no discrimination on the basis of color, creed, politics, etc., as to who may join within the common bond of association.
- There is a democratic control system whereby voting privileges are vested equally among the members.
- The surplus is distributed among the members on the basis of a limited rate of dividend on invested capital plus, in some cases, a rebate of the amount of loan interest paid.
- To encourage thrift through savings and thus to provide loans and other member services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union.

From the time the first credit unions were established, the concept of a common bond of association for members has prevailed. There are three general types of common bond: the occupational bond, in which all

members are employed in the same business or industry; the associational bond, in which all members belong to the same professional group, trade union, society or association, religious group, or ethnic group; and the residential bond, where all the members live in the same community or district. All these forms of common bond exist in Saskatchewan, but the community credit union, often with several branches, is most common.

Central organizations

Just as individual people grouped together to form credit unions, so also credit unions throughout Saskatchewan are linked to each other through their membership in a common organization, the Credit Union Central of Saskatchewan. This organization, which emerged following the amalgamation of the Credit Union League of Saskatchewan, mentioned earlier, and the Saskatchewan Co-operative Credit Society in 1970, serves as both a trade association, and a kind of "central bank" for credit unions, and is also a source of financing for co-operative organizations.

Central acts on behalf of credit unions in legislative matters, and provides them with services in the area of credit union development, human resources training and development, marketing programs, information sharing, centralized purchasing of supplies, and the operation of an electronic data processing system. Credit unions are also able to deposit temporarily surplus funds and invest reserves with Central, and funds from Central are loaned to credit unions, co-operatives and various other organizations and businesses.[3] In addition, Central provides cheque clearing facilities between credit unions and other financial institutions, and is the means by which credit unions are linked to the Canadian Payments Association, the national clearing system for all financial institutions.

Central is owned by its member credit unions and co-operatives, and is controlled through a democratic structure whereby its board of directors is responsible to delegates elected by credit unions and co-operatives at the sub-district and district levels. Provincial centrals and various financial co-operatives throughout Canada own and control a third-tier organization, the Canadian Co-operative Credit Society (CCCS), which provides financial and other services to credit unions and co-operatives at the national level. CCCS, in turn, represents Canadian credit unions on an international body, the World Council of Credit Unions.

How the Mutual Aid Board fits in

The Mutual Aid Board is one of several interrelated "lines of defence" in a fairly complex system that is designed to provide a full guarantee of all members' funds on deposit with Saskatchewan credit unions.

The first line of defence is in the credit union itself. The two main reasons why credit unions, or other financial institutions, fail are a lack of

SASKATCHEWAN COOPERATIVE
CREDIT SOCIETY

Th[illegible] of th[illegible] S[illegible] [illegible] Society for near[illegible] years from the early 1940s until 19[illegible]2. The Credit Union League of Saskatchewan, Sherwood Credit Union, and several co-operative organizations also had offices in the building.

liquidity (cash and assets that are readily convertible to cash) and an inability to operate on a positive income basis. In the first case, the credit union can't meet its members' demands for cash. In the second case, it doesn't have an adequate capital base (share equity plus retained earnings) to carry it through the tough times when its financial margin (the margin between what it earns and what it must pay for money) is narrowed, or to withstand significant loan or investment losses.

With regard to liquidity, a credit union must carry out a balancing act. A liquidity shortage leads to severe operational difficulties. But excess amounts of cash and highly liquid assets reduce the credit union's ability to earn adequate interest, thus making it difficult to pay competitive rates on deposits. The minimum required level of liquidity in Saskatchewan, set by provincial credit union legislation, is 10 per cent of all share and deposit liabilities. Credit unions have been increasing their liquidity levels and, by the end of 1982, they exceeded the statutory liquidity level by $435 million, which was 14 per cent of total system assets.[4]

Because of fluctuations in liquidity levels and variations between credit unions, Credit Union Central maintains a provincial "liquidity pool" with funds invested in it by credit unions. The federal Cooperative Credit Associations Acts sets out certain requirements for levels of liquidity held by provincial centrals. However, the Canadian credit union system felt a need to go beyond those requirements and the centrals agreed to begin a formalized national liquidity management program in 1983. The formula called for the centrals to hold six per cent of their provincial credit union assets on an operating basis in liquid investments. In addition, two per cent of Canadian credit union assets were to be held in liquid investments by CCCS.[5]

With regard to a credit union's capital base, the balancing act required for liquidity management is not necessary; the larger the capital base, the stronger the credit union will be financially. Equity and retained earnings provide the credit union with a low-cost source of funds that can be used to improve the overall margin and enable greater growth. It also provides a cushion against losses, and helps to build confidence in the credit union on the part of depositors, potential lenders and regulatory agencies.

In Saskatchewan, total credit union capital had grown to $115 million by 1982, doubling in just four years. The capital-asset ratio had improved from 2.2 per cent in 1975 to 3.7 per cent in 1982.[6] This ratio was better than that of other provincial credit union systems, as well as Canadian chartered banks, where the ratio had declined during the same period.

The credit union system set for itself the goal of raising the level of capital to five per cent of total assets; the plan set targets of three per cent in retained earnings and two per cent in equity. In Saskatchewan, retained earnings had reached the three per cent level by the early 1980s, but there was still a need to build up share equity levels.

A central reserve fund

The second line of defence for members' deposits is the Mutual Aid Fund, which is, in effect, a central reserve fund to which all credit unions contribute annually. By 1982, this fund had reached $33 million so that, combined with the retained earnings and equity already built up by credit unions, the total had reached 4.8 per cent of all credit union assets in

The [illegible] in R[illegible] [illegible] completed [illegible] time [illegible] Credit Union Central [illegible] A[illegible] of [illegible] including the management of the Mutual Aid Board (Credit Union Deposit Guarantee Corporation), are located in the building. The Department of Co-operation and Co-operative Development also has its offices there.

Saskatchewan by 1982. This level had been growing steadily from 3.5 per cent in 1977.

In addition, there is a third line of defence. Beyond the comprehensive set of deposit protection mechanisms built into the credit union system itself, governments provide an implicit guarantee of depositors' funds. The federal government, as regulator and manager of the money supply, has an interest in ensuring the confidence of depositors, since that is essential for the stable functioning of the economy. It has demonstrated, on a number of occasions when financial institutions have failed, that it will act to protect deposits.

Federal government support for depositors in financial institutions is normally channelled through the Canada Deposit Insurance Corporation (CDIC). The credit union system is not covered by federal deposit insurance, as is the case with chartered banks and numerous other financial institutions. This means that credit union members' deposits are not covered by the CDIC deposit insurance which has an upper limit of $60,000, but rather by the *Mutual Aid Board which provides an unlimited guarantee of all*

savings and deposits (including accrued interest or dividends) of Saskatchewan credit union members.

At the same time, the credit union system is now recognized by the federal government as being a significant part of the monetary economy, and it is understood that a major financial failure in the credit union system could have an impact on the rest of the economy. As a result, both the Mutual Aid Board and Credit Union Central of Saskatchewan have been authorized to enter into agreements with the CDIC providing for it to act as lender of last resort. Under provisions of the federal Co-operative Credit Associations Act, should there ever be a temporary shortage of liquidity in Saskatchewan credit unions, the CDIC could lend up to $200 million to the Mutual Aid Board or Central to meet short-term liquidity requirements.[8]

Provincial governments, which have jurisdiction over credit unions, also have an interest in ensuring that deposits are well protected. In 1982, the government of Manitoba provided financial assistance to the stabilization funds of the credit union and caisse populaire systems when those funds became depleted. In Saskatchewan, where well over half of the entire population hold deposits in credit unions, it is likely that the provincial government would also take action to protect members' deposits in credit unions if no other alternatives were adequate.[9]

The safeguard mechanisms that are in place and the level of reserves in Saskatchewan make the need for assistance from either the provincial government or the CDIC highly unlikely, but the fact remains that the potential for such assistance does exist should it ever be absolutely necessary.

The Mutual Aid Board's purpose and objectives

The Mutual Aid Board has a three-fold purpose. As has been mentioned already, one part of its purpose is to provide an unlimited guarantee of members' funds on deposit with Saskatchewan credit unions. But it is not just a deposit insurance agency like the CDIC, which has been described as a "burial service" that winds up the operations of failed financial institutions and pays out the depositors. A second part of the Mutual Aid Board's purpose makes its expanded role clear: it is to provide preventive services to avert financial difficulties in credit unions. In other words, the Board not only has a commitment to credit union members, it is also committed to the credit unions themselves and will attempt to keep them financially healthy. Closely related to that is the third part of the Board's purpose: to protect the Fund itself.

In keeping with the overall purpose of the Mutual Aid Board, its stated objectives[10] are as follows:

People — To protect member deposits

Money — To maintain a fund that guarantees member deposits and supports services that protect the fund.

Development — To communicate to credit unions, members, and the public the effective level of deposit protection, and to provide preventive services that enhance credit union financial self-reliance.

The structure and operations of the Mutual Aid Board are generally similar to those of stabilization funds in other Canadian provinces, but there are some significant differences. For a comparison of the five largest funds, see Appendix I.

Building the fund

The Mutual Aid Fund is built up through annual assessments levied on each credit union in the province. Under provincial legislation, the Board is permitted to levy a maximum of one-fifth of one per cent of shares and deposits of the credit union. The Board has not normally levied the maximum assessment; in most years it has been set at one-seventh of one per cent or less. Should the Fund fall into danger of being impaired, the Board is permitted to make one additional annual assessment of up to one-fifth of one per cent of shares and deposits.

In addition to assessments, the Fund is built up through earnings on investments. The policy of the Board is to place more than half of its investments outside of the credit union system. The theory is that a fund set up to protect the credit union system should not all be invested in that system. These out-of-system investments are mostly long and short term federal and provincial government bonds.

Another 20 to 40 per cent of investments are in Credit Union Central shares and deposits, and the remainder is in other securities, including Co-operative Trust Company of Canada shares and guaranteed investment certificates.[10]

The Fund is also used to assist credit unions in difficulties. According to the *Credit Union Act*, the Board is able to make loans, advances or grants-in-aid to credit unions, and it can also guarantee liabilities assumed or acquired by a credit union. In 1982, about 30 per cent of the Fund was in loans rather than investments. The general policy of the Board is to make interest-free loans, and allow a credit union to use the interest earned from that money to build up its reserves. Of course, the interest-free loan policy does reduce the Fund's earning ability in order to ensure the guarantee of deposits. Nevertheless, the Board has been able to maintain the Fund at or near its goal of one per cent of total credit union system assets since the late 1960s (See Appendix II).

There are, no doubt, people who wonder how a fund that amounts to only one per cent of total credit union assets could possibly be considered to be adequate protection for members' deposits. The determination of the size of an adequate fund is based on a number of things, including the past experiences of the Saskatchewan credit union system, and of agencies such

as the CDIC and the Federal Deposit Insurance Corporation in the United States, along with comparisons with other deposit protection funds.[13]

A quantitative test of fund adequacy has also been devised. It is based on a computer model designed in the early 1970s for the Credit Union Reserve Board of British Columbia by Prof. R. W. White of the University of Western Ontario, and later adapted for use by other stabilization funds, including the Mutual Aid Fund.

The White model, in providing a simulation of stabilization fund operations, does two things. It estimates the likelihood of a credit union being in distress, and it estimates the cost of liabilities to the fund as a consequence of this distress level. Inputs into the model include regional and provincial economic variables, financial market variables, and variables covering the historical operating data of each credit union.

Is there any final, conclusive proof that the Fund is adequate in size? Perhaps not. The probability of distress model and the ratios of other funds to deposits protected certainly provide useful indicators. The past experience of the Mutual Aid Board, in having been able to deal successfully with each problem that has arisen, is a further indication that it is moving in the right direction. Much of the real protection of deposits stems from the preventive and rehabilitative measures taken by the Board. To the extent that it is possible to assess the matter, the evidence is that the Fund, as it is now structured, together with other reserves in the system, is adequate to cope with anything but a massive collapse of the credit union system. The programs of the Board, described later, are designed to minimize the possibility of any major crisis.

Structure of the Board

The Mutual Aid Board, as defined in legislation passed in 1977, consists of five members, three from the credit union system and two from the Saskatchewan government. Two members are appointed by the board of directors of Credit Union Central, with one of them usually being a director. Other Board members are the general manager of Central, the deputy minister of finance, and the deputy minister of co-operation and co-operative development, or their nominees. Management is provided for the Mutual Aid Board on a contract basis by Credit Union Central.

What the Mutual Aid Board does

The functions of the Board in relationship to credit unions can be divided into two main categories: prevention and rehabilitation. Over the years, there has been a shift to greater emphasis on prevention as the Board attempts to increase the amount of self-regulation in credit unions.

One of the most vital aspects of the task of preventing credit unions from falling into difficulties is the monitoring of their performances. The

Board has developed a comprehensive monitoring program known as the "early warning system". One of the outputs of this system is a "watch list" that identifies credit unions requiring special attention.

The essence of all preventive programming is to ensure that credit unions are run according to sound business practices. One important aspect is a Mutual Aid Board program which updates and maintains policy, operations and loans manuals. Assistance to credit unions in developing policies on loans and other matters is also aimed at improving management procedures. Mutual Aid Board collaboration with the government in revising and amending credit union legislation is intended to make the legislation more relevant to the current needs and operations of credit unions.

Most of the loan losses in the credit union system have been experienced in the area of commercial lending. As a result, the Central Credit Committee was set up to review loans made for business purposes, as well as certain other loans. Lending limits are established by the Mutual Aid Board for each credit union, and loans for amounts above these limits must be referred to the Central Credit Committee.

Another aspect of the Board's loss prevention program is its bonding and insurance coverage. Since the early 1970s, the Board has operated a master bond program which provides standardized coverage for the entire credit union system throughout the province. It has also been involved in programs to improve security and reduce losses, for example, through the upgrading of safekeeping and burglar alarm equipment.

When credit unions do find themselves in difficulties, the Mutual Aid Board can take action in a variety of ways, depending on the nature of the problems. If a credit union has particularly serious problems, the Mutual Aid Board has the power to place it under supervision while providing it with financial assistance. The primary reasons why supervision is imposed are: a failure by a credit union to develop adequate reserves, a failure to develop adequate plans and policies, or a failure to operate in a sound and business-like manner. A credit union has the right under the Credit Union Act to appeal a declaration of supervision to the government registrar of credit unions.

In some cases, it becomes clear that it will be impossible to "nurse" a credit union back to health. To protect members' shares and deposits when a credit union becomes non-viable, the Mutual Aid Board becomes involved in the dissolution of the credit union or its amalgamation with another credit union. In cases of dissolution, the Board may be appointed liquidator on those rare occasions when it appears likely that the credit union will be unable to meet the claims of members for withdrawal of shares or deposits.

The preventive and rehabilitative programs of the Mutual Aid Board, which continue to evolve and be refined to meet changing needs, have been

remarkably successful in keeping the Saskatchewan credit union system healthy. Along with other measures provided by the system, they ensure that Saskatchewan's credit unions are extremely safe places in which to deposit money.

Footnotes

The guarantee of shares is something unique to credit unions. However, the nature of credit union shares must be explained. A share account typically consists of a $5.00 ownership share and a separate amount which is essentially a savings account, except that the return is based on the performance of the credit union and life insurance coverage is provided on the account. So, the share account is not true equity that is at risk.

Taken from the Statement of Credit Union Operating Principles, adopted by the World Council of Credit Unions.

Central's retail/commercial loans division is responsible for loans to retail co-operatives and credit unions, as well as farm, commercial and residential loans referred by credit unions. The wholesale/commercial loans division concentrates on mortgage investments or bridge financing loans primarily to property developers through brokerage agencies. Loans to central co-operatives are also serviced through this division.

Mutual Aid Board, Integrated Monitoring System quarterly report, December [illegible]982.

Credit Union Way, August, 1982, p. 27.

Mutual Aid Board, *Annual Report*, 1981.

Mutual Aid Board, *Annual Report*, 1982.

It must be emphasized that assistance to the credit union system from the CDIC is only in cases of liquidity shortages, and does not cover absolute losses. There have, however, been some examples of government assistance in cases of absolute loss: for example, assistance to the caisse d'entraide system in Quebec and the credit union systems in Yukon and the Northwest Territories.

In fact, the Saskatchewan government did take steps to protect depositors at Sherwood Credit Union in Regina when that credit union experienced financial difficulties in the 1930s. See Chapter 3, page 46.

[11] The statements of purpose, objectives and strategic priorities were revised by the Board in September 1983. These are the revised objectives.

Management report to Mutual Aid Board, October 31, 1982.

The deposit insurance fund of the CDIC amounted to 0.2 per cent of total deposits insured in [illegible]982. In addition, the CDIC is able to borrow from the federal government's consolidated revenue fund. The insurance fund of the FDIC was [illegible]15 per cent of estimated insured deposits in 1983. The FDIC also has access to funds in the U.S. Treasury in an emergency. Other provincial credit union deposit protection funds in Canada are close to one per cent of all provincial shares and deposits (See Appendix I).

CHAPTER TWO

Origins of the Mutual Aid Board

The Mutual Aid Board of Saskatchewan was the first body of its kind in the North American credit union movement. Its founders had few precedents from which they could borrow, but they were able to draw on the strong co-operative tradition that had developed in Saskatchewan. The credit union movement in Saskatchewan got its inspiration from credit union developments in other parts of the world, while its impetus came from leaders of the growing co-operative movement within the province.

The first "people's banks"

The first credit union in the world was a co-operative credit society or "people's bank" organized in Prussia in 1850 by Hermann Schulze-Delitzsch, who was interested in providing credit to craftsmen and artisans unable to obtain services from the commercial banks. In 1864, Friedrich Wilhelm Raiffeisen organized the first rural self-help credit society for farmers in Germany. While both types of people's banks were based on the democratic principles of the Rochdale co-operatives in England, the Raiffeisen banks, with their self-help emphasis, became more popular and grew more rapidly. They continue to be an important factor in the European financial community to this day.

The first credit union in North America was a caisse populaire (people's bank) established in the province of Quebec. It was founded by a journalist and legislative reporter, Alphonse Desjardins, in his hometown of Levis. Like the leaders of the European movements, Desjardins was a man of strong moral purpose who was deeply concerned that lower income people

were refused credit by banks and had to borrow at usurious interest rates from unscrupulous money lenders. One innovation he introduced was a common bond of association, permitting everyone within a church parish to become a member of the co-operative bank.

Desjardins was also instrumental in introducing the credit union concept into the United States. Among a group of interested people who listened to him speak about credit unions at a meeting in Massachusetts in 1908 was Edward Filene, a Boston merchant and philanthropist. In the following years, Filene and Roy Bergengren provided leadership in spreading the credit union concept throughout the U.S. The Americans introduced the occupational and associational bond credit unions, along with the residential bond patterned after the Desjardins model.

Bergengren also played a part in introducing the credit union idea to English-speaking Canada. He worked together with a group of Catholic educators, led by Dr. Moses Coady, at St. Francis Xavier University in Antigonish to set up credit unions for farmers, fishermen and industrial workers in Nova Scotia in the depressed conditions of the late 1920s and early 1930s. It was the "Antigonish model" credit union that came to flourish later in Saskatchewan and the other Prairie provinces.

The co-operative movement in Saskatchewan

The history of the co-operative movement in Saskatchewan dates back to the establishment of the first farming homesteads on the western plains in the late 19th century. Settlement in the western territories was encouraged by the federal government, which wanted to consolidate control over the area as part of its National Policy. It was also in the interests of the transcontinental railways, which needed more traffic, and eastern business interests, which needed cheap raw materials and protected markets for their manufactured goods.

But for Prairie farmers, the situation was different. Living in near isolation and scattered over a large area, they were far from the markets for their grain, and they had virtually no control over those markets. They came to resent deeply the fact that they were totally at the mercy of the railways, the grain exchange, and the grain elevator and milling companies, in setting prices and transporting and storing their grain.

The farmers made a significant breakthrough when they formed the Territorial Grain Growers Association at Indian Head, Saskatchewan, and won important court victories against the Canadian Pacific Railway in 1902 and 1903, forcing the railway to stop favoring the elevator companies in the apportionment of rail cars.

The farmers were still faced with strong opposition, but spurred by that initial victory, they went on, led by men like E. A. Partridge and W. R. Motherwell, to form the Saskatchewan Co-operative Elevator Company and the Saskatchewan Co-operative Wheat Producers (which later acquired

the elevator company and became the Saskatchewan Wheat Pool). As the benefits of local ownership and control became more apparent, farmers established new co-operatives for the storage and marketing of wheat, livestock, eggs, poultry and dairy products by the end of the 1920s.

They pressed for the formation of the Canadian Wheat Board to reduce the market domination of the international trading concerns. To lower their production costs, they organized a co-operative society for the wholesale purchasing and retail distribution of farm supplies. That organization grew into the present-day Federated Co-operatives Limited. To combat the monopolistic practices of the oil companies, they built the world's first co-operative oil refinery in Regina.

Clearly, the growth of the co-operative movement in Saskatchewan was not just the result of dreamy idealists espousing lofty principles. It was built with a great deal of effort in hundreds of small communities by tough pioneer farmers struggling to survive in the face of an often harsh and extremely variable climate, and an economy over which they had no more control than the weather.

The province of Saskatchewan was created in 1905, just as the co-operative movement was beginning to grow. Since there were few vested business interests in the province at the time, and since there were almost no local institutions other than the co-operatives capable of initiating economic expansion, it was natural that the provincial government should become an active promoter and supporter of the co-operative movement. Many of the politicians and civil servants had participated in the organization and running of co-operatives before they entered government.

The double force of the greatest depression of the twentieth century and seven consecutive years of drought dealt a devastating blow to Saskatchewan farmers during the 1930s. They were, perhaps, hit harder than any other group in North America. Tens of thousands of farmers, especially in the "dust bowl" of southern Saskatchewan, lost virtually everything they had and many farm families were forced to abandon their land and go on relief. In the towns, hundreds of businesses failed, throwing many people out of work. Numerous co-operatives failed to survive, as well.

Banks closed scores of rural branches in Saskatchewan, as borrowers were unable to keep up loan payments and collateral literally blew away in the dust storms. It became virtually impossible for many people to obtain credit, just when they needed it desperately in order to make a new start in life.

Credit unions in Saskatchewan

B. N. (Barney) Arnason, a young marketing economist in the Co-operation and Markets Branch of the Saskatchewan Department of Agriculture, realized that, with the whole province facing the massive task of rebuilding its agriculture and its economic life, something special would

be needed to help people get on their feet again. Once again, people would have to rely on themselves and their neighbors, so it was time for the co-operative movement to enter a new phase.

He began to gather information about the caisse populaire movement in Quebec and the credit union movement in Nova Scotia. In 1934, he helped to organize a conference of Saskatchewan co-operative associations and invited George Keen, the secretary of the Co-operative Union of Canada, to come to the conference and introduce the idea of credit unions.

After the conference, a committee was set up with Harry Fowler of the co-operative refinery as chairman. It pressed the government to enact credit union legislation and, in 1937, the Credit Union Act came into force. Arnason, who was actively involved in drafting the legislation, borrowed heavily from the Nova Scotia Act. In 1937, he became registrar of credit unions and he provided quiet, steadying guidance for the movement until he retired 30 years later. In 1944, the government created the Department of Co-operation and Co-operative Development, with a Credit Union Branch, and Arnason became the Department's deputy minister, a position he also held until 1967.

In its formative years, the Saskatchewan credit union movement received a good deal of advice and assistance from leaders such as Bergengren and Coady, who were experienced in setting up credit unions, and from Walter Francis. The first credit union chartered in Saskatchewan in 1937 was the Regina Hebrew Savings and Credit Union. It was followed by other urban credit unions set up by government and co-operative employees.

The first rural credit union was organized at Lafleche under the leadership of T. H. Bourassa, a local merchant. It formed a successful model that was copied in hundreds of other rural communities around the province. The rural credit unions had an enormous impact on Saskatchewan's economy as, for the first time, people were able to put their own savings to work for their mutual benefit and, at the same time, retain control of these revolving development funds within their own communities.

Soon after the first credit unions were formed, their leaders gathered in Regina to set up an association that could promote the development of credit unions, provide some services for its members, and represent them in dealings with the government. The Credit Union Federation, later renamed the Credit Union League, was established in 1938 and Thomas Molloy, a retired civil servant, became its president, a position he held for the next 14 years. He was a major influence on the development of the movement for the first two decades of its history.

As credit unions began to grow, there was an increasing need for them to have some place to deposit surplus funds when members did not need to borrow. The banks were reopening branches in Saskatchewan, but there

B.N. [illegible] [illegible]ason, depu[illegible]ter of co-oper[illegible] and co-opera[illegible] de[illegible] from 1944 to [illegible] and registrar of credit unions from 1937 to [illegible]. He was one of the founders of the credit union movement in Saskatchewan. (Credit: Saskatchewan Government Photo Service

was a lingering suspicion that they might once again withdraw some of their services if economic conditions worsened. So, in typical fashion, Saskatchewan co-operative leaders decided to pioneer a new form of institution that would meet their needs and at the same time retain control locally.

As a result, in 1941 they established the Saskatchewan Co-operative Credit Society to serve as a central depository for surplus funds from credit unions. It earned interest on these deposits by lending them to local credit unions and co-operative associations when they were needed. Molloy, Fowler and George Munro, another one of the leaders of the movement, were instrumental in getting the Credit Society started. These three men served successively as president of the Society from 1941 to 1966.

Protecting members' shares and deposits

The credit union movement quickly took root and grew in Saskatchewan. By the time it was 10 years old in 1947, it had grown from nothing to 118 credit unions, with over 31 000 members and assets of more than $5 million.

The movement was also remarkably successful in running its affairs. In fact, the Saskatchewan Federation received an award from CUNA in 1944 for organizing the most credit unions per thousand of population and having the lowest percentage of liquidations of any league on the continent. In 1947, *Credit Union Way*, the League's official publication, proudly proclaimed that no credit unions had failed and no members had lost any shares or deposits. More than $[illegible] million had been loaned out by credit unions in the first decade and losses totalled only $[illegible].

Unquestionably, the movement's leadership was concerned that credit unions should manage their money carefully to protect members. For example, the Credit Union Act required that at least 20 per cent of credit union net earnings be set aside each year in a reserve fund against bad loans or losses. The reserve fund was to be built up to 10 per cent of assets. In addition, a cash reserve of at least five per cent of paid-up capital was to be maintained to meet possible withdrawals of shares. Leaders such as Thomas Molloy, foreseeing the likelihood of increased loan demand in the post-war period and the possibility of more hard times in the future, strongly emphasized the need to build reserves during the comparatively stable period of the early 1940s.

Another safeguard built into the Act was the creation of the credit union supervisory committee. It was expected to keep fully informed on the financial condition of the credit union, examining all loan applications, examining the securities held as collateral for loans, auditing the books, verifying pass books and accounts, and reporting to the directors and the registrar. Molloy described the supervisory committee as "the guardian of the equity which each individual member has in the credit union."[7]

An additional protection provided by the Act was a requirement that all officers and employees handling money be covered by fidelity bonds. During the early years, the Federation negotiated group coverage for credit unions with Saskatchewan Guarantee and Fidelity Company but, as credit union assets grew, there were concerns about the adequacy of the bonding program. There was a feeling that treasurers should be bonded for up to 15 per cent of assets. The need to improve and standardize bond coverage led the League to introduce a province-wide master bonding program providing both fidelity and blanket bond coverage. Burglary and holdup insurance were also introduced, as a growing number of credit unions were keeping cash on hand and providing a form of chequing service. Insurance companies such as CUNA Mutual Insurance Society also introduced loan protection, in which it guaranteed the credit union against loss due to death (and later, permanent disability) of the borrower.

To back up and enforce the provisions of the Act, the government set up a team of credit union inspectors in its Department of Co-operation. Credit unions were required to file monthly, quarterly and annual reports with the department and the inspectors made regular visits to credit unions. Since many credit union treasurers and directors had no prior experience of running a financial business, the inspectors provided invaluable assistance,

often instructing credit union officials in the basics. The first inspector, A. C. "Mac" MacLean, was involved in the organization of more than 220 credit unions and served as supervisor of the Credit Union Branch from 1944 until 1956. Another one of the first inspectors who became something of a living legend for his work among credit unions was C. A. "Al" Snell. He was director of the Credit Union Branch from 1956 to 1973.

However, with all the protective measures and support, there is some evidence to show that good luck played more than a little part in the excellent record of Saskatchewan credit unions during the 1940s. Many credit unions ignored the advice about building reserves. Between 1938 and 1949, statutory reserves ranged between 0.9 and 2.9 per cent of total credit union assets. Government officials did not make an issue of it because of the low number of write-offs for uncollectible loans.

A veteran credit union manager, recalling the 1940s, felt that one reason why there were few problems with loans was that most of them were for very small amounts of money. In fact, many credit unions were lax in collecting on overdue loans, especially the small ones. A study of 31 credit

Th[illegible] vice-president, at a Credit Union League of Saskatchewan annual meeting in the 1950s. Molloy was president of the League from 1938 to 1952, managing director of the League from 1940 to 1951, and president of the Saskatchewan Co-operative Credit Society from 1941 to 1947. He was one of the foremost leaders of the Saskatchewan credit union movement during its first two decades.

unions in 1948 showed a serious delinquency problem. It was found that 35 per cent of all loans, amounting to 20 per cent of all money loaned out, were overdue. Thirty-nine per cent of all loans for less than $25 were overdue.

Crisis strikes

While laxity and sloppy management by some credit union officials was causing concern to leaders in the movement during the 1940s, the need for greater protection of members' shares and deposits came to a head in 1950 and 1951.

One system-wide problem was caused by those old nemeses of Saskatchewan farmers — the weather and the railways. In 1950, a calamitous frost hit most of Saskatchewan, lowering the grade and price of much of the grain. In addition, there was a very late and incomplete harvest and, to make matters even worse, an embargo was placed on grain deliveries because of a shortage of rail cars. Then, in 1951, there was a bumper crop, but the grain was tough and damp at harvesting time, and anywhere from 25 to 30 per cent of the crop was left in the fields. Meanwhile, shipping difficulties continued and much of the 1950 grain remained undelivered.

One of the immediate results of these problems was a heavy draw on deposits at the Credit Society. Between 1949 and 1951, deposits plummeted from $3.2 million down to $1.2 million.[9] These events highlighted once again the fact that the economy of Saskatchewan was centred almost completely on agriculture, especially wheat and coarse grains. Two bad crop years in a row could set off a chain reaction that rippled through the entire economy.

For credit unions, one lesson learned was that, in an economy heavily dependent on one industry — an industry that produced widely fluctuating levels of income — it was necessary at all times to maintain a high level of liquidity. Beyond that, there was the danger that several consecutive crop failures could cause many farmers to default on their loans, and that would place a heavy strain on reserves, which were already at inadequate levels. Since crop failures could occur simultaneously across the province, there was a need for a system-wide effort to build reserves.

While the problems of maintaining adequate liquidity and reserves in an agricultural economy caused concern in the credit union movement in Saskatchewan, the idea of forming some sort of central reserve fund was, at most, still only a vague notion in the minds of a few people. Two specific events were needed to touch off serious discussion about setting up a central fund. Both of these events, which occurred within a few months of each other, involved yet another potential threat to the security of members' shares and deposits — defalcation, or the misappropriation of credit union funds.

The first case occurred in St. Gregor, a small community just east of Humboldt. The manager of the credit union there also operated a lumber

An annual meeting of the Co-operative Union of Canada held in Winnipeg in [illegible]946. Several prominent members of the Saskatchewan credit union movement were present.

yard and worked for a grain company. In 1950 the credit union's supervisory committee was told by a bondsman from the grain company that grain company money had been used for credit union purposes.

The credit union called in the government inspectors to do an audit. It turned out that the manager had not taken any money for his own personal use, but that he was in the habit of transferring money from one of his three business operations to another to cover shortages. It took the inspectors four months of going through the books to sort out everything that had happened. They discovered that about $36,000, which was 55 percent of the total savings of the 350 members, was missing.

About $8,000 was recovered through a bond claim, bringing the total loss down to some $28,000. Meanwhile, charges were laid against the manager and, after a lengthy trial in 1951, he was convicted and served a period in prison. Despite that, the general feeling of local people was that, while the man may have done a poor job of managing money, he really had the best interests of the community at heart and had not meant to do anything wrong. A special general meeting of the credit union was held in March 1951 and members were advised of what had happened. A month later, at the annual meeting, members clearly showed that they were committed to carrying on with the credit union in spite of the loss.

Shortly after the problems surfaced at St. Gregor, the second case of misappropriation of funds became known at Arran, a small town near the Manitoba border. There an audit showed that the balances recorded in members' pass books were not the same as those in the credit union books. After three months of examination, the inspectors reported the bad news: more than $71,000 was missing. It was a clear case of misappropriation by the manager and it was never discovered what the funds had been used for. As at St. Gregor, there was a trial and the manager was convicted and served a term in prison.

The loss amounted to about 45 per cent of total savings of the 318 members. In some cases, members had all their life savings in the credit union. One widow and her three sons had put $30,000, the proceeds of a farm sale, into the credit union for temporary safekeeping. A bond claim and the seizure and sale of the manager's personal effects reduced the loss to about $58,000, but that was still a substantial amount for a credit union of that size. The members were told about the loss at a couple of general meetings in 1951. Some of them were upset, but no one was openly hostile. There was a feeling that not much could be done about it. As at St. Gregor, the members decided that the only way to recover the losses was to carry on with the credit union.[4]

A central fund proposed

The response from the credit union system was swift. After news of the loss at St. Gregor became known, several credit unions sent cheques to the

Credit Union League with the intention of helping to cover the loss. At a League directors' meeting in January, 1951, Henry Lawrence of Lashburn suggested an amendment to the Credit Union Act permitting the League to assess and collect a portion of credit unions' annual reserve allocations, and to set up a fund for the redemption of the shares of a credit union facing dissolution with financial loss to its shareholders.

The debate about a fund continued throughout much of 1951. After a meeting with Premier T. C. Douglas, who was also Minister of Co-operation, and the deputy minister, Barney Arnason, the League directors decided that no action should be taken until after the court case involving the St. Gregor manager was completed. But at the League's annual meeting in July, a motion by Lawrence, that the League should investigate the possibility of setting up a stabilization fund, was approved by the delegates.

Another resolution passed after lengthy debate proposed that, of the 20 per cent of net income each credit union was required to allocate to reserves

H[illegible] [illegible] (right) [illegible] p[illegible] with a plaque by Ra[illegible] [illegible] of his long [illegible] [illegible] between [illegible] was [illegible] strongly supported the concept of a mutual aid fund and was chairman of the Mutual Aid Board from 1955 to 1966. Neville was president of the Credit Union League from [illegible]58 to 1964, and was a member of the Mutual Aid Board from 1960 to 196[illegible]

annually, five per cent should be deposited in a central fund and the remaining 15 per cent retained by the credit union. Yet another resolution that was approved called for the League to set up a voluntary fund for contributions to assist St. Gregor Credit Union.

The idea of a fund seemed to be gaining acceptance, but it was not clear what the fund should do. The League's legislative committee felt the fund should not be used to reimburse credit unions for defalcations; such losses should be covered by adequate bonding. But when this committee met with Premier Douglas and Arnason in September, 1951, the premier indicated that he thought such losses should come within the scope of the fund. He argued that the situations in St. Gregor and Arran could have serious consequences for the whole co-operative movement. By November, 1951, the League executive committee was already at the stage of setting down the purposes of the proposed fund, and deciding who should sit on its board and how much the annual assessments should be.

Certainly, the possible dissolution of the two credit unions and the substantial loss of savings by their members worried many people in the movement. Many of them recalled the collapse of Home Bank in the 1920s and the difficulties of the Bank of British North America in the early 19[illegible]s, and the effects they had on Saskatchewan depositors. They were also aware of the many bank failures that had taken place in the United States. The credit union system in Saskatchewan was still small, even though it had grown substantially during the 1940s. There was a feeling among leaders that many people were still not sure about whether it was safe to keep deposits in a credit union. If nothing were done about the losses at St. Gregor and Arran, the future of the whole movement in Saskatchewan might be placed in jeopardy. So, by the end of 1951, it was generally accepted that a central stabilization fund should be set up as soon as possible.

Footnotes

For a full analysis of the factors leading to the development of the co-operative movement in Saskatchewan, see Norman Bromberger, *Conflict and Co-operation* (Regina: Saskatchewan Co-operative Credit Society, 1973).

Francis, a Saskatoon lawyer, served as legal counsel for the Credit Union League and the Credit Society, as well as for numerous other co-operative organizations until his death in 1964. An acknowledged expert in co-operative law, he represented co-operative organizations during the hearings of the Royal Commission on Co-operatives in 1944-45, and played a leading part in drafting the federal Cooperative Credit Associations Act, and in incorporating the Canadian Co-operative Credit Society under this legislation.

From an editorial by Molloy in *Credit Union Way*, March, 1947.

Saskatchewan Co-operative Credit Society, *Annual Report*, 1951.

Accounts of the losses and the recovery at St. Gregor Credit Union appeared in *Credit Union Way* in October, 1959 and February, 1964.

• The story of the losses and recovery at Arran Credit Union was told in *Credit Union Way* September 1959. See also Muriel Clements, *By Their Bootstraps: A History of the Credit Union Movement in Saskatchewan* (Toronto: Clarke, Irwin, 1965), p. 96-20.

It is not clear who could be credited with originating the idea of a mutual aid fund. Ben Lawrence was certainly one of the strongest promoters of the idea. He joined the Mutual Aid Board in 1954 and became chairman the following year. He continued in that capacity until 1960.

CHAPTER THREE

The First Challenge

> The Mutual Aid Fund is the most important legislation since 1937. This legislation aims to meet some of the problems that are more peculiar to this province than to any other. The purpose of the fund is essentially to assist credit unions to avoid getting into serious difficulty and to safeguard the savings of our credit union members. If dissolution of a credit union is necessary and some loss is threatened as far as money is concerned, some assistance to those who are threatened would be available.

These words were used by Barney Arnason, the deputy minister in the Department of Co-operation and Co-operative Development, when he addressed delegates to the Credit Union League of Saskatchewan annual meeting in Saskatoon in July 1952.

With the government and many credit union leaders in the province convinced of the vital importance of having a central stabilization fund, they moved quickly in 1952 to set in motion the machinery for establishing such a fund. One of the first steps of the League was to notify other co-operative organizations in the province of the plan and seek their support. In the early part of 1952, the plan was discussed with representatives of the Saskatchewan Wheat Pool, Federated Co-operatives Limited, and Co-operative Life Insurance Company.

What sort of fund?

Arnason and his associates in the government, along with League officials, faced several problems in drafting legislation to set up the fund. One question was whether there should be a separate act drafted to provide for the creation of what was to become a totally new entity. Recalling the question years later, Arnason said it was decided that the legislation should take the form of an amendment to the Credit Union Act to show that the new fund was really an extension of existing credit union activities; a further development of the concept of sharing of resources and accepting responsibility for losses for the benefit of the whole.

Perhaps the most important question was, how should the new fund and board be structured and how should they operate? There were virtually no precedents known by the drafters of the legislation. Premier Douglas recalled, from his years as a federal Member of Parliament (1935-44), that there had been a central stabilization fund for chartered banks and that it had provided a guarantee for depositors when the BNA Bank got into difficulties in the 1930s.

In the credit union movement, there was no real experience anywhere in North America of how a stabilization fund could operate.[1] Some attempts had been made. For example, the California Credit Union League had adopted a plan for a stabilization fund in 1950, and CUNA circulated details of it to other leagues. The fund would be created through annual assessments of one-twelfth of one per cent of total assets of each participating credit union. Loans or other benefits could be paid to any credit union in difficulty, if it had been paying assessments for at least three years. On liquidation, the fund could make up the losses of members, or assist any credit union in danger of insolvency. But participation in the plan was voluntary and trustees of the fund could refuse to admit a credit union, thus limiting the potential extent of the guarantee.

In Quebec, there was also a form of protection for credit union members' equity. The provincial Desjardins federation annually assessed local caisses populaires one-tenth of one per cent of total assets as dues. A further two per cent of gross earnings was added to these in the late 1940s. Ten per cent of the total dues collected annually was set aside by the federation as a security fund to assist local caisses populaires in temporary difficulties. The conditions of assistance were at the discretion of the federation.

With limited experience elsewhere to draw upon, Saskatchewan credit union leaders were forced, not for the first time, to rely on their own creative instincts and their own experiences to develop a fund that would meet their particular needs. After considerable deliberation, it was decided that the new fund should be administered by a board that was distinct from the Department, the League and the Credit Society, but which worked in close co-operation with those bodies. Since any credit union could find itself in

difficulties at some time, and since the failure of any credit union with a loss of members' shares and deposits could jeopardize the future development of the entire movement, there was general agreement that the fund should not be voluntary; assessments should be levied on all credit unions. At the same time, the fund would not "cost" anything for credit unions; the amendments would provide that a portion of each credit union's reserve would be invested in the central fund. In effect, it was to be an example of the pooling concept, already well understood in Saskatchewan, being put to a new use.

The amendments incorporating these ideas and setting up the Mutual Aid Fund were approved by the provincial legislature in April and the legislation came into effect on July 1, 1952. At the League's annual meeting a few days later, Arnason explained the purposes of the legislation to delegates and suggested some possible policies for the operation of the new fund.

Getting a consensus

By this time, the idea of a mutual aid fund was accepted by most credit unions in the province and a motion supporting the establishment of the Fund was passed at the 1952 annual meeting of the League. No doubt, one reason that not all credit unions contributed to the voluntary "St. Gregor fund" in 1951 was that they were convinced the Mutual Aid Fund would become a reality within a year and it could then deal with the St. Gregor problem, as well as those of other credit unions that ran into difficulties.

However, there were still some credit union leaders who felt that when a credit union had difficulties, especially when they were caused by defalcations, the rest of the credit union system was under no obligation to bail it out financially. Perhaps, they argued, increased bond coverage would be more appropriate.

To ensure, therefore, that the new Fund had the widespread support of the credit union movement—even beyond that provided by the League's directors and delegates—it was agreed by the Department and the League that all credit unions would be polled regarding their support for the Fund. To allow them ample time to study the Act amendments before finally deciding on the merits of the Fund, the poll would not be held until the fall of 1952. Unless at least one-half of all credit unions with a total membership of at least two-thirds of the total provincial membership voted in favor of the plan, it would not be instituted.

A circular explaining the plan, together with a questionnaire, was mailed to each credit union and the results of the poll were conclusive. A total of 79 per cent of all credit unions, with 80 per cent of the total provincial membership, voted in favor of adoption of the plan.[1] So by early 1953, the way was clear to appoint a board and get the Mutual Aid Fund into operation.

The Mutual Aid Board becomes operational

The Board, as administrator of the Fund, was established by government order-in-council on May 8, 1953, and five members were appointed. The structure of the Board was agreed upon after considerable discussion. One early draft charter prepared by the League would have set up a California-style fund with five trustees elected by delegates at the annual League meeting. A later plan proposed a three-member board with one representative each from the Department of Co-operation, the League, and the Credit Society. The final, approved structure called for five Board members: three elected by the League (usually two League board members and one other), one elected by the Credit Society, and one appointed by the registrar.

A[illegible] [illegible] meeting of the Mutual Aid Board held May [illegible]. Attending the meeting, [illegible] right: J.R. Dunning, [illegible] Mike Eriksen, secretary-treasurer of the Board and managing director of the Credit Union League; Gordon Nielsen, first chairman of the Board and a representative of the League; Barney Johnson, secretary-manager of the Saskatchewan Co-operative Credit Society; A. Grant Howard, representing the League on the Board; A.C. "Mac" MacLean, vice-chairman of the Board and supervisor of credit union services in the Department of Co-operation and Co-operative Development; Barney Arnason, deputy minister of co-operation and co-operative development; and Ernest Colpron, representing the League on the Board. (Credit: Saskatchewan Archives Board).

An organizational meeting of the Board was held on May 22, 1953, at the office of the registrar, Barney Arnason, in the legislative building. Arnason articulated the feeling of all those present, that they were pioneering in the development of a new and vitally important function of the credit union movement on the continent.

Attending that meeting along with Arnason were the first five members of the Board. Gordon Nielsen of Tisdale, A. Grant Howard of Saskatoon, and Ernest Colpron of Gravelbourg, all representing the League, Barney Johnson, the newly appointed secretary-manager of the Credit Society; and Mac MacLean, representing the registrar of credit unions. Also attending were Mike Eriksen, who had recently replaced Tom Molloy as managing director of the League, and J. R. Dunnet, from the Department of the Attorney General.

An election of officers was held and Nielsen became the first-ever chairman of the Mutual Aid Board. MacLean was elected vice-chairman and it became something of a tradition for the next two decades that the head of the Credit Union Branch was always elected vice-chairman. MacLean and Al Snell, who both held that position, had a wealth of knowledge about the operations and problems of credit unions throughout the province, and they made an enormous contribution to the effective functioning of the Board during its first 20 years. The chairman of the Board was always a representative of the League, until the League ceased to exist in 1970.

Eriksen was elected secretary-treasurer of the Board, and that marked the beginning of an arrangement whereby the League managing director and, later, a representative of Credit Union Central, always served as secretary-treasurer. Because of Eriksen's position, it was only logical that the League should provide the limited amount of administrative work necessary for the functioning of the Board and the management of the Fund. The League decided to charge the Board a fee of $25 a month for the secretarial and clerical services it provided. That first, simple agreement eventually grew into a management contract under which Credit Union Central provides a wide range of services and the administration fees run to more than $1 million a year.

Assessments of credit unions, as proposed by delegates at the 1951 League annual meeting, were set at five per cent of net income annually, while the total required allocation to credit union reserves, including the Mutual Aid Fund assessment, was not increased above the existing level of 20 per cent of net income.

St. Gregor and Arran

The first major task facing the Mutual Aid Board once it had become operational was to devise some sort of recovery program for the credit unions at St. Gregor and Arran. After the initial shock of the financial losses

had worn off, the majority of members at both credit unions had made a commitment to carry on with the credit unions. Under these circumstances, it was essential to provide them with some support.

At both credit unions, all assets were frozen immediately after the losses had been discovered in 1951. It soon became clear to members that, if they chose to dissolve the credit unions, they would lose all their shares and deposits, because it would be impossible to collect any outstanding loans. Most decided to take a chance and try to get something back. At St. Gregor men like Bill Rossmann encouraged members to rebuild the shattered credit union. Rossmann, a member of the supervisory committee, told members at the 1951 annual meeting that they could fire him, but he had no intention of resigning.

No elected officials were ousted from office. In fact, one director, Con Flemel, the local Wheat Pool agent, was hired as manager, and he commenced to run the credit union out of his office in the Pool elevator. At Arran, Mike Kinaschuk was appointed manager, and he ran the credit union from his home, along with his insurance business.

Loan collections proved to be difficult because many borrowers believed that they had no obligation to repay loans to credit unions that had pretty well ceased to function. Government officials helped Flemel and Kinaschuk convince these borrowers otherwise. Money began to flow in

Con Flemel and [illegible] St. Gregor [illegible] financial difficulties in 1950 and 1951. Concerns about the situation there led to the establishment of the Mutual Aid Board in 1953.

and it was possible to pay off members' deposits in time. But members kept most of their money in life insured share accounts, and the share capital remained frozen for several years.

Meanwhile, at St. Gregor, one old bachelor came into Con Plemel's office and said he wanted to open an account and deposit $10. Plemel, who was spending long hours trying to collect outstanding loans, was taken aback that anyone would want to deposit money in the credit union at that time, but the man said, "If I put it in, I know it'll stay there."

After numerous consultations about the legal status of new deposits, Al Snell of the Department came up with an acceptable solution: start a second credit union. The old credit union would collect outstanding loans and rebuild the depleted reserves, while the new credit union would offer new share and deposit accounts and loan services. So, in 1952, charters were granted for St. Peter's Credit Union in St. Gregor and Livingstone Credit Union in Arran. In each community, the managers commenced to operate simultaneously with two separate sets of credit union books.

Financial assistance

In 1954, when the Mutual Aid Board stepped in with financial assistance, the credit unions were struggling, without much success, to recover their losses. At the League annual meeting in March, Mutual Aid Board chairman Gordon Nielsen reported a proposal to provide grants-in-aid for 75 per cent of the loss of the members. The balance of the losses would be recovered by the credit unions themselves, or through Board loans.

The delegates, however, defeated that proposal. Another motion proposing continued interest free loans and grants-in-aid was also defeated. A third motion, proposing that any grants-in-aid be postponed for five years, and that interest free loans be provided immediately, was carried.

The argument for loans rather than grants was based on the notion that the credit unions would then realize that they had a responsibility to work to achieve their own recoveries. The loans would be interest free so the credit unions could use the interest they earned on these funds to build up their reserves more quickly than would otherwise be possible.

In May, the Board approved a motion by Barney Johnson to provide interest free loans of $14,000 to St. Gregor Credit Union and $29,000 to Arran Credit Union, approximately half of the losses suffered by the two credit unions. One good reason for not making larger loans was that the Fund contained very little money at that time. The 1953 assessment of the Board, based on 1952 credit union earnings, was about $23,000. The 1954 assessment added another $33,000 to the Fund.

Nevertheless, the Board did commit itself to make additional interest free loans available, up to 100 per cent of the losses, as the Fund grew. Repayment of the Board loans was to be on the basis of all interest collected

on all existing loans and all future loans made by the old credit unions while the arrangement was in effect. The lending activities of the two new credit unions were not affected.

In addition to the loans, the Board agreed to provide the two old credit unions with grants to cover the salaries of their managers and legitimate operating expenses. This meant that, even though most of the earnings were being used to repay the Board loans, there would still be surpluses available to increase the value of members' shares. The credit unions, in turn, agreed to certain restrictions on loaning, withdrawals, and general operations.

During the next five years, officials at both St. Gregor and Arran worked hard to rebuild share capital and repay the Mutual Aid Board loans. MacLean and Snell often visited the two communities, and provided step-by-step guidance in the complicated affairs of managing two credit unions at the same time.

In 1959, five years after the first loans had been made, the situations at St. Gregor and Arran were reviewed thoroughly. St. Gregor, with the aid of interest-free loans of about $40,000 and operating grants of just under $6,000, had been able to recover more than 50 per cent of its losses and repay about $12,000 on the Mutual Aid Board loan. At Arran, the Mutual Aid Board had provided loans of about $64,000 and operating grants of over $17,000. The credit union had been able to rehabilitate about 35 per cent of its loss and repay some $16,000 to the Board, leaving about $45,000 outstanding.

Grants-in-aid

The Board decided that both credit unions had made praiseworthy efforts to recover from their losses and that it was time to provide new assistance. With the approval of delegates at the 1959 League annual meeting, the Board decided to make grants-in-aid, bringing the share capital in both credit unions up to par value. At St. Gregor, the grant amounted to just over $15,000, bringing the outstanding loan down to $12,769. At Arran, the grant was about $50,000, and the outstanding loan was reduced to about $29,000.

So, in August, 1959, Al Snell announced the good news about the grants-in-aid at general meetings in both St. Gregor and Arran. The atmosphere was far different from what it had been at those tense meetings eight years earlier. "There is no need for handkerchiefs tonight," said John Stratychuk of the Wheat Pool at the Arran meeting.

In both communities, members voted to amalgamate the two credit unions, and in both cases, they retained the names of the original credit unions. The Mutual Aid Board requested each credit union to repay the outstanding loan in five yearly installments, plus interest at 2½ per cent per year on the outstanding balance. Both loans were repaid on schedule in 1964.

Since many members of both credit unions had a large proportion of their life savings in the frozen share accounts, there was enormous relief when the ordeal was over. Those who had chosen to withdraw their money earlier at 50 cents on the dollar were startled in 1959 when they received cheques for the balance of their savings. So, the credit unions could rightfully claim that no one had lost a cent of shares or deposits.

One of the most touching stories was related by Mike Kinaschuk at Arran. An elderly couple had $4,000 in savings at the credit union when its assets were frozen. The wife was seriously ill in hospital and the husband, fearing that she was dying, went to Kinaschuk and demanded his money immediately. Kinaschuk patiently explained that there simply wasn't any money but the distraught man wouldn't listen. "If my wife dies, I'm going to lay her body on your doorstep," he threatened. His wife recovered shortly after and he came back to apologize to Kinaschuk. Then, in 1959 when the couple received a cheque for $4,000, they decided the money would be safest if it were left in the credit union.

Credit Union Way ended a report on St. Gregor in 1959 with these words: "So a story book ending to a credit union that could have faltered but which, through determination and sacrifice on the part of the members coupled with assistance from the credit union movement through the Mutual Aid Fund, will continue to flourish and serve the community of St. Gregor."

Mike [illegible] was [illegible] St. Gregor Credit Union at very nearly the same time as 1958-59.

Both credit unions did flourish. New credit union offices were completed in both communities in 1966. St. Gregor's assets had grown to nearly $6 million by the early 1980s, while Arran, growing more slowly, had passed the $2 million mark. Moreover, new credit unions sprang up in the surrounding areas of both towns and grew more rapidly. Many people, it seems, were waiting to see how the credit union movement would resolve the problems at St. Gregor and Arran before they were willing to put their savings into credit unions.

New policies for new problems

Other than at St. Gregor and Arran, the Mutual Aid Board was required to give very little financial assistance during the 1950s. Several years of crop failures in the Arborfield area led to cash flow problems for the local credit union. Two loans totalling $4,106 were made by the Board in 1954 and 1955 at one per cent interest. Although these loans were eventually repaid, the problems continued for some time.

The movement did have a big scare in the mid-1950s, when it was learned that Sherwood Credit Union in Regina, one of the largest credit unions in Canada, was in difficulty. It had about a half million dollars in bad loans, including one large loan with a trucking firm. The Mutual Aid Board was approached, but it was not in a position to provide assistance. Eventually verbal guarantees were provided by the provincial government, but they were never required. The Department of Co-operation gave Sherwood approval to write off its bad loans over time, and it was able to do that without reducing dividends, although patronage refunds were suspended. Major losses at Sherwood at that time would have been disastrous for the whole movement in Saskatchewan.

Its early experiences led the Mutual Aid Board to conclude that its assistance policies must be flexible. The Board argued, in its 1958 annual report, that it must have a free hand to grant the form of assistance it felt to be necessary. This would not lead to the Fund being treated as a "glorified Santa Claus," it was added.

Consideration by the Board of an application for assistance from a credit union in financial difficulties would be tied in with a program of self help on the part of the credit union. The Board's objective would be to maintain the solvency of credit unions, and prevent liquidation wherever possible.

Such assistance would be provided mainly in the form of interest free loans, possibly staged over several years to cover a portion of the loss at one time. But interest could be charged and the rate could be set at the discretion of the Board. It could equal the return on investments with the Credit Society (2½ per cent), or it could be reduced (as at Arborfield).

If the assistance program appeared to be taking too long, the Board policy was to introduce a combination of loans and grants, but still with the

intention of promoting self help. Grants-in aid alone would be used only where they were needed to encourage a credit union to greater self help efforts or where shareholders and depositors had to be partially reimbursed in case of liquidation.

After nearly a decade of operation the Board appeared to be functioning successfully. The crises at St. Gregor and Arran had been resolved to everyone's satisfaction and the potential crisis at Sherwood had been averted. The credit union movement in Saskatchewan had reason to believe that it would be able to cope with any financial difficulties that might crop up.

Footnotes

Credit Union Way, February, 1952

Credit Union Way, April, 1952, and January-February, 1953. Mutual Aid Board *Annual Report* 1957

CHAPTER FOUR

Refining the Fund Concept

As the credit union system entered the 1960s, the Mutual Aid Board could claim that it had successfully cleared the first hurdle in its existence by resolving the financial problems at St. Gregor and Arran. It had developed workable policies to deal with the issues that arose during the 1950s and it had earned the confidence and support of credit union leaders throughout Saskatchewan. Credit unions, in turn, benefitted from an enhanced public reputation as reliable and safe financial institutions, and their growth accelerated during the 1960s.

The Board was able to shift its focus to new issues and adapt and modify its policies to handle new types of problems that arose. Fortunately there were no major problems that severely tested the resources of the Fund.

The Porter Commission

By the late 1950s and early 1960s, the concept of a stabilization fund for credit unions was gaining acceptance throughout North America. Saskatchewan's Mutual Aid Board, as a pioneer in the field with nearly a decade of operational experience, provided a model for the development of funds elsewhere.

The Board, along with the rest of the credit union system, received national exposure and extensive public scrutiny for the first time in 1962 when submissions were made to the Royal Commission on Banking and Finance, headed by Chief Justice Dana Porter of Ontario. The Commission, in its examination of the credit union systems in Canada, discovered some

Representatives of the Saskatchewan credit [illegible] made a submission to the Porter Royal Commission [illegible]. Among them were, left to right: Harold Wagner, general manager of [illegible] company; Les Tendler, treasurer of Saskatchewan Co-operative C[illegible]; [illegible], managing director of the Credit Union League; Ray Neville, president of the League; Barney Johnson, secretary manager of the Credit Society; and George Munro, president of the Credit Society.

"latent weaknesses" which it identified in its 1964 report: inadequate supervisory and inspection arrangements in some parts of the country; a need to strengthen the protection provided to shareholders and depositors through mutual aid funds; and problems posed by low liquidity in some credit unions and their centrals.

Dealing specifically with mutual aid funds, the Commission made the following recommendation:

> We agree with the views of the national organizations that all locals should be required to belong to a mutual aid fund in order to provide an additional safeguard for their members. As we pointed out earlier, credit unions and caisses populaires differ from other banking institutions accepting funds from the public in that they are restricted to operating locally and cannot diversify their lending risks as easily as other organizations operating over a broader area. They are thus especially vulnerable to severe local difficulties, and the assurance of help from the movements' own mutual aid funds is vital to them and to their members.[5]

Other stabilization funds

At that time, British Columbia was the only province outside of Saskatchewan with a stabilization fund. The Credit Union Reserve Board was established there in 1959 primarily through the efforts of the B.C. Central Credit Union and the B.C. Credit Union League. Participation in the fund was mandatory for all credit unions but, unlike in Saskatchewan, the Reserve Board has always been totally independent of the Central and the League. In 1968, the Provincial Credit Union Share and Deposit Guarantee Fund was created to provide an unlimited guarantee of all members' shares and deposits. The Reserve Board became the regulatory arm of the credit union system and the administrator of the Guarantee Fund.[2]

Ontario had no stabilization fund but, in the late 1950s, the Credit Union League requested a legislative amendment that would permit it to examine any affiliated credit union where the League believed there was cause for concern.

In the United States, many state leagues introduced some form of stabilization fund during the 1950s and several were patterned at least partially on the Saskatchewan model. Al Snell was frequently invited to stabilization conferences in the U.S. to provide advice and to discuss the Saskatchewan experience.

Most of the state programs were operated by the leagues themselves and were financed mainly from portions of league dues that were set aside in separate funds. Participation in most of these programs was voluntary, creating problems when credit unions required assistance but did not participate in a program.

One of the best programs was in Michigan, where the League had set aside $354,000 for its stabilization fund between 1955 and 1959, and assisted some 70 credit unions. In Illinois, the Credit Union Share Insurance Corporation was formed in 1956 with no participation from the League. It too was a voluntary plan and by 1959 only 620 of the nearly 1,600 credit unions in the state were members.

Snell, after returning from one stabilization conference in New York in 1959, made the rather immodest but perhaps accurate comment that "we in Saskatchewan have by far the best stabilization program in effect anywhere on this continent and I believe we are the envy of all the others."

Most of the state league programs were modest in scope; they provided no deposit guarantees and they were limited to state-chartered credit unions. A bill was introduced in the U.S. Congress in 1952 to provide for an insurance fund to cover losses in federally chartered credit unions. The fund, to be administered by the director of federal credit unions in the Social Security Administration, would be mandatory for all federal credit unions and would cover losses in shares or deposits up to $2,500 per member. That legislation died and the credit union movement remained

strongly opposed to government controls. As an alternative, the CUNA Stabilization Corporation was set up in 1958 with the objective of bringing all state leagues into its membership and acting as a re-insurer.

Discussions concerning an international stabilization fund were begun and continued throughout the 1960s. The Mutual Aid Board was invited to become a member of CUNA International Stabilization, Inc. in 1965, but declined. Sask returned from one meeting in Washington in 1966 and expressed frustration at the lack of common understanding; most U.S. credit union people, he said, refused to accept the principle of compulsory participation or government participation in stabilization funds.

Meanwhile, the voluntary, league-operated stabilization programs met with little success. Most of their funds never rose above $300,000 and they were unable to cope with the financial crises that developed in later years. CUNA's national program never had more than 30 state members and its liquid assets never rose above $1 million.

The U.S. federal government stepped in with the establishment of a national share insurance fund under the National Credit Union Administration in 1970, and many of the state programs were liquidated after that. By 1982, there were 18 state share insurance corporations; only two had assets of over $20 million.[4] CUNA Stabilization Corporation was dissolved in 1982.

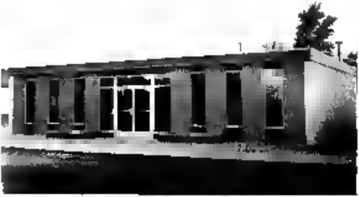
CUNA's international efforts came to be channelled into assisting programs in countries such as Jamaica, New Zealand and Paraguay. These efforts are being continued by the World Council of Credit Unions.

Growth and transformation of the movement

The credit union movement in Saskatchewan underwent some remarkable changes during the 1960s. The formation of new credit unions was most rapid in the 1940s; it slowed down dramatically in the 1950s, and the number of credit unions began to decline after reaching a peak of 301 in 1965 (See Appendix II).

But growth in total membership and assets did not slow down. Membership grew from 40,000 in 1950 to 137,000 in 1960, and accelerated to 320,000 in 1970. From a marginal adjunct to the financial community the credit union system had blossomed to include one-third of the entire population of the province by the end of the 1960s. Assets grew even more dramatically — from $12.5 million in 1950 to $88.8 million in 1960 and $407 million in 1970.[5]

The transformation of the system was evident in the growing size and services of many credit unions. In 1950, the average credit union in Saskatchewan had just under 200 members and assets of just over $50,000. By 1960, the average credit union had grown to just under 300 members and $320,000 in assets. In 1970, the average was 1,200 members and $1.5 million in assets.



[illegible] the 1960s [illegible] one [illegible] Arran, where [illegible] problems of a decade earlier

By the early 1960s, most credit unions were no longer operated by volunteer treasurers working out of Pool elevator offices or cubby-holes tucked into the backs of stores. Many credit unions had erected attractive new buildings that differed little from bank branches in appearance. They were being managed by full-time employees, including many of these former volunteer treasurers who had gradually taken on more and more responsibilities. Many credit unions had introduced chequing services, new types of deposit accounts and a variety of other services. They were dealing with greatly increased numbers of members and processing volumes of transactions that were increasing astronomically. New, more sophisticated management skills were required to cope with the growing scale and complexity of credit union work.

Expanded services

Inevitably, not all credit unions were able to keep pace with the growing demands on them. The government had stepped up its program of supports and controls in the early 1960s, when it divided the province into six districts and appointed a resident inspector in each. Supervisory committees were having difficulties keeping on top of the situations in larger credit unions, so the Credit Union Act was amended to permit credit unions of a certain size to employ auditors.

The services of the credit unions' central organizations were expanded too. The Credit Society, which initially shared staff and office facilities with Sherwood Credit Union, greatly increased its central banking services for credit unions and co-operatives under the leadership of Barney Johnson, who was its secretary-manager from 1953 to 1963. Cheque clearing services were introduced at the Society's Regina and Saskatoon offices in the late 1950s. The Credit Society also had a close working relationship with the Mutual Aid Board. The Board maintained more than half of all its investments in Credit Society shares and fixed term deposits and, in the 1960s, it established a line of credit with the Credit Society. In addition, Barney Johnson served as a valued and respected member of the Board for 11 years.

The tremendous growth of credit unions during these years also led to expansion of the services of the Credit Union League. During its first 15 years of existence, the League was run almost singlehandedly by Tom Molloy, who at one time was both its president and managing director. The League began to expand its staff and services rapidly, especially between 1959 and 1965 when G. A. (Al) Charbonneau was its managing director.

The League introduced a field service in the 1950s, providing credit unions with advice and assistance in their organizational and development work, and making service calls to assist in operational matters. The number of field representatives was increased in the 1960s, as the League gradually assumed some of the duties performed by government inspectors in the earlier years.

With the increased need for more skilled credit union personnel, training programs were introduced by the League, some of them in conjunction with the newly formed Western Co-operative College (later renamed Co-operative College of Canada) in Saskatoon. The Mutual Aid Board supported the League's manager trainee and on-the-job employee training programs with grants of $5,000 per year in the early 1960s, and later $10,000 per year. It was, perhaps, one of the first forms of preventive programming in which the Board became involved. The League also introduced an employee emergency replacement program in 1962 and, although the Board felt it did not have the legal powers to provide financial assistance, it did approve of the program as a means of supporting credit union management.

The Development Fund

Another program introduced by the League was its Development Fund. By the early 1960s, most credit union members in the province wanted full-time service, as well as a negotiable order (chequing) system. But the League, according to one report by Charbonneau, estimated that there were some 55 "weak and retarded" credit unions functioning as part-time operations that could not provide service at that level.

Many of those credit unions, it was felt, had the potential to become full service operations if they received some assistance. The League would select and pay a full-time manager to run the credit union until its assets reached $300,000, at which point the credit union was considered to be capable of sustaining a full service operation on its own. Eventually, it would be expected to reimburse the League for the assistance, so the fund could be used to assist another credit union.

In 1963, a management agreement was signed with Kipling Credit Union and the first manager was hired under the program. A year later, after its legislation had been amended, the Mutual Aid Board provided a grant of $20,000 to the Development Fund, enabling the League to expand the program from three to six credit unions. Charbonneau, who in addition to his League responsibilities was also secretary-treasurer of the Mutual Aid Board, kept the Board well informed on the progress of the Development Fund. The Board increased its grants to $60,000 in aggregate in 1966 and $100,000 in 1973.

The program did stimulate development. By 1970, 12 credit unions had received assistance. Their combined membership grew from 4,000 to nearly 12,000; total loans outstanding jumped from $1.3 million to $7.3 million, and member investments rose from $2.4 million to $9 million. Some of the credit unions, such as Spiritwood, became remarkable success stories.[4]

At the same time, there were some problems. Not all credit unions in the program were successful. Fort Credit Union in Fort Qu'Appelle eventually was dissolved. The management contracts were changed to make the managers credit union employees, because credit union boards were not receiving enough guidance. Also, the League was unable to provide competent managers to all the credit unions requesting assistance. That demonstrated the growing need for improved management skills.

Bonding and Insurance

The League became more actively involved in bond coverage as the growth of credit union operations made adequate insurance more important. Fidelity bonds were required by all credit union employees handling money, and the coverage was increased from $15,000 to $25,000 in 1954, with a floater fidelity bond being carried by the League. Nevertheless, after several defalcations, it became clear that the coverage was inadequate and the bonding schedule, based on the size of credit unions, was revised upward several times during the 1950s and 1960s. In 1966, the Mutual Aid Board entered the bonding field when it agreed to pay the premiums for $50,000 of excess fidelity bond coverage for each credit union. Another new feature introduced by insurers was the optional faithful performance bond, available at 30 per cent of the fidelity bond premium.

The other main part of the bonding program was the blanket coverage. The League purchased a master bond and resold the bond to credit unions.

Improved safe-keeping equipment had become a high priority for credit unions during the 1960s.

Blanket coverage included insurance against loss of money or securities through any act committed by any employee (much like fidelity coverage), as well as losses through robbery, burglary, larceny, theft, holdup, damage or destruction while the property was in the credit union premises or in transit, as well as damages to the premises caused by burglary or holdup.

As credit unions began to handle more cash and negotiable securities, burglaries became an increasing problem. Tom Molloy used this graphic description of the situation in the September 1956 issue of *Credit Union Way*: "At this time of the year when many millions of dollars in cash are being distributed to paying agents for the various grain companies throughout the province, burglars like pirates of old are flocking to the richest trade routes. In a recent period of approximately three weeks, three credit union offices were burglarized. At Coronach some $12,000.00 in cash and securities were taken. Dinsmore lost $1,500.00 and Mankota $4,900.00."

The growing number of burglaries and a consistently unsatisfactory claims-to-premium ratio led the League to introduce a loss prevention program in 1960. A special committee was set up to work out a premium schedule with the insurer to provide credit unions with incentives to

improve their safekeeping equipment, and it negotiated an arrangement with two companies for the provision of their safes to credit unions at discounted prices.

Many credit unions took advantage of the program by purchasing new safes and upgrading their vaults. In 1964, the Mutual Aid Board stepped in and offered loans at two per cent interest for 10 years to small credit unions that could not afford to purchase new safekeeping equipment. In 1969 the Board purchased six heavy-duty safes and rented them to small credit unions at low rates. Both these programs continued until the late 1970s. The results of the loss prevention program were dramatic: the claims-to-premiums ratio for burglaries dropped from 180 per cent in 1963 to one per cent in 1966.

Collection service

Another type of loss that was causing concern to credit unions resulted from bad or uncollectible loans. Saskatchewan credit unions had a good record. Total loans between 1937 and 1963 amounted to $336 million, and the write-off in statutory reserve was only 14½ cents for each $100 loaned, which was the best record in the financial industry at the time.

Nevertheless, there was concern that, through negligence or lack of outside help, some credit unions would suffer heavy losses in uncollectible accounts. There was a large exodus of people from Saskatchewan during the 1950s and 1960s, and a large proportion of the uncollectible loans were to debtors who had left the province. There were also numerous farm and business loans that had been neglected for years and had deteriorated.

As a result, Saskatchewan's credit union system pioneered yet another innovation, when the League established the first credit union collection service in Canada in 1964. At the time, there were few collection agencies outside the larger cities. The new agency introduced information, collections letter, skip location, collection services, and an education program for credit unions. While collections had always been something of a sore point for people imbued with the co-operative philosophy, the League's collection agency was hardly a heavy-handed, arm-twisting operation. The first manager, Ed Dressler, and his staff worked in a conscientious and responsible manner, and the agency became self-supporting and highly successful. The Mutual Aid Board normally used Al Snell as liquidator of dissolving credit unions, but in time it began to use the services of the collection agency, too. In 1982, the central collection services were no longer needed and the agency was wound up as part of a reorganization of Central's loan services.

New Mutual Aid Board functions

In addition to the support it provided for new League services during the 1960s, the Board took on other new responsibilities as well. Its powers were broadened by the revised Credit Union Act in 1962 and by subsequent amendments to the Act. Among the legislative changes were provisions permitting the Board to act as liquidator in the dissolution of credit unions and to purchase assets of credit unions in which it had a financial interest. The reasons for these changes can be found in developments in the credit union system. Many credit unions were growing rapidly, but others, including many of those identified as being potential recipients of Development Fund assistance, had languished for years. Often the commitment to persevere and grow in the face of difficulties, which was so evident at Arran and St Gregor, was lacking. In other cases, the membership base of small parish and employee credit unions declined and they had no choice but to dissolve. The result was that, although there were still new credit unions being formed, dissolving credit unions eventually outnumbered them and, after 1965, the total number of credit unions began to decline.

The Credit Union League of Saskatchewan greatly expanded its services to credit unions during the early 1960s. The League's senior management included (left to right): Henry Van Kampen, director of education; Al Charbonneau, managing director; Tony Thorson, director of field services; Ed Dressler, manager of the collection agency; and Eldon Anderson, director of public and member relations (back to camera).

The need to give the Board the capability to wind up the financial affairs of dissolving credit unions satisfactorily was obvious by the early 1960s. One list in 1964 showed 19 credit unions where all shares had been paid out, another seven where shares were still being paid out, and four more that were having other financial matters wound up. Al Snell reported to the League annual meeting in 1962 that, to minimize expenses, representatives of the Department of Co-operation were being appointed as liquidators in almost all cases of dissolution. But the extra work placed a burden on Snell's staff, so he strongly supported the idea of the Mutual Aid Board assuming the duties of liquidator in cases where the Board had provided financial assistance to the credit union.

For a time, Snell and his staff continued to handle a heavy workload of liquidation cases, but eventually the League collection agency was able to become more involved. In 1966, the Mutual Aid Board adopted the policy of requesting the registrar's appointment as official liquidator for each credit union to be dissolved. The staff of the League collection agency were then appointed as service employees to administer the liquidations. Fees were negotiated on the basis of a reasonable analysis of the circumstances of each credit union.

The growing number of dissolutions did create some uneasiness within the system. There was a feeling that simply dissolving a credit union that was no longer able to function — paying out its members, and hoping that they would deposit their money in another credit union — was not enough. One attractive alternative to dissolution was amalgamation of credit unions. Some people feared that repeated amalgamations would lead to large regional credit unions that would abandon the strong local identity of smaller credit unions. But the arguments in favor of retaining members within the movement and continuing or even improving services to them through amalgamations, were compelling.

The problem, however, was to make amalgamations easier. The Mutual Aid Board had to come up with policies that would allow the absorbing credit union to pick up assets with a guarantee against losses. By the late 1960s, the Board was evolving an amalgamation policy. At first, it advanced funds to the absorbing credit union and the funds were repaid as the loans of the absorbed credit union were collected. Later, the Board began to guarantee the payment of losses in excess of statutory reserves at the time of amalgamation. After several years, the Board would make a payout for the amount of the loans written off and turn the loans over to the collection agency.

By 1970, the number of dissolutions had dwindled and amalgamations had become more common. Before long, many of the amalgamated credit unions were carrying on as branches of the larger credit unions.

Structural changes

The debate over the merits of amalgamation was part of a larger debate that is probably as old as the co-operative movement — centralization versus decentralization. The debate heated up during the 1960s with the evolution towards fewer and larger credit unions. Noting the large numbers of amalgamations taking place, some people confidently predicted that, by 1980, there would only be some 50 or 60 regional credit unions in Saskatchewan, and they welcomed the prospect as a positive development.

Some went beyond that and advocated a total amalgamation of all credit unions and the central bodies into a single credit union organization for the entire province. Cec Lewis of Assiniboia, who was a member of the Mutual Aid Board during the 1960s, suggested a unitary system similar to the Saskatchewan Wheat Pool, where there was a central organization with regional representation.

At the same time, there was considerable hostility toward these ideas, particularly in small communities where people felt they would lose control of their credit unions. The credit union system in Saskatchewan had been built by people with strong suspicions of centralization, and these suspicions remained deeply rooted.

At the same time as this debate was going on, questions were being asked about the nature and functions of the second-tier organizations. In the late 1960s, discussions focussed on the need to rationalize the operations of these organizations, and proposals were made to amalgamate the League, the Credit Society and Co-operative Trust. Concerning the League and the Credit Society, there was a feeling that, even though they had excellent relations with each other, their functions would begin to overlap and they might begin costly competition in the future. In the case of the Credit Society and Co-op Trust, they were already competing for investment funds from credit unions and relations were becoming strained.

Co-operative Trust acquired a national charter in 1967 and dropped out of the discussions; in fact, the company may never have been seriously interested in amalgamation. The other two organizations supported amalgamation in principle and they began holding joint board meetings with a single executive committee in 1968. Amalgamation was approved at the annual meetings of both organizations in 1969, and it was finalized at the first joint annual meeting in 1970. The new organization retained the name Saskatchewan Co-operative Credit Society and adopted the trade name Credit Union Central of Saskatchewan in 1976.[9]

Whither the Fund?

During the 1960s the purposes and values of most credit union institutions were being questioned. The Mutual Aid Fund was no exception. The Fund had been growing steadily during the 1950s, even after nearly

$90,000 in grants to Arran and St. Gregor were deducted. The interest-free loans had resulted in annual deficits for the Fund from 1954 to 1959, but by 1964 the accumulated deficit had been wiped out and surpluses began to build up.

At the end of 1961, the Fund, as represented by accumulated assessments, had passed the half million dollar mark, already quite a substantial sum in the eyes of many credit union people. Moreover, the total assessment that year had been $117,000, and it appeared likely that the Fund was going to grow very rapidly during the 1960s, reaching the level of one per cent of total system assets before long.

The latent suspicion of centralized institutions began to surface again. There were concerns that the Fund had the potential to become so large and powerful that it would become the master, rather than the servant, of the movement. To some extent, the discussions centred on finding new uses for the growing Fund. The Act was amended to permit a number of new uses already mentioned: grants from Fund earnings to the League's Development Fund and its management training programs, loans to credit unions for the purchase of safes and vaults and the purchase of assets from dissolving or amalgamating credit unions.

Other potential new uses were suggested. Some suggestions were implemented by the Mutual Aid Board; others were not. In 1966, one credit union asked the Board for a loan to construct a new building for itself. The Act was later amended to permit the Board to make available funds for new credit union offices under certain circumstances.

Another credit union had its furniture and equipment destroyed in a fire started during a burglary attempt. It was discovered that the loss was not covered under the blanket bond insurance plan, so the credit union asked the Mutual Aid Board for assistance. Although the Board was unable to provide any aid, it did notify the insurance carrier of its dissatisfaction with the ruling.

One credit union involved in an amalgamation asked the Board for a guarantee of any operating loss suffered as a result of the amalgamation. The Board replied that it was only able to guarantee losses on loans in excess of reserves.

A revolving fund?

But, apart from discussion of potential uses for the Mutual Aid Fund, there was a serious debate about the Fund itself. This debate had begun when the Fund was first established and centred on whether the Fund was essentially a part of credit union reserves or whether it was a separate entity. Since assessments were calculated as a portion of the required allocation to statutory reserves, credit unions treated those assessments as part of their reserves. They were carried on the books of credit unions as assets.

There was also some pressure from credit unions to get these funds returned to them. A resolution approved at the League's 1953 annual meeting requested the Mutual Aid Board to consider operating the Fund on a revolving door plan. The Board rejected that idea, pointing out that, when the Fund reached one per cent of total credit union assets, there would be no further assessments. A year later, however, the Board dropped its opposition to the revolving fund idea.

Nevertheless, the legislation made no provision for the return of assessments to credit unions. One exception was that the Board could be dissolved with the support of two-thirds of all credit unions. The Fund would then be dispersed, with each credit union receiving the amount of its accumulated assessments less any assistance it had received from the Fund. Also, if a credit union were to dissolve, its assessment contributions would be refunded.

The issue was revived in 1960 when resolutions at the League's annual meeting suggested that the Mutual Aid Board commence the revolving door plan and also that a dividend or interest on money in the Fund be paid to credit unions. Both resolutions were defeated but, when the Credit Union Act was consolidated and rewritten in 1962, the principle of the revolving door plan was accepted. The Act provided that, once the Fund reached $1

[illegible] Department of Co-operation and Co-operative [illegible] and a member of the Mutual Aid Board from [illegible] 1973, addresses the annual [illegible] the Credit Union League in Saskatoon in 1964. Seated left to right are [illegible] Wyant of the Department of Co-operation, G.A. Al Charbonneau, managing director of the League and secretary-treasurer of the Mutual Aid Board from 1939 to 1965, Ray Neville, president of the League, and Harold Bronsen, vice-president of the League.

million, one year's assessment would be returned to credit unions each year, beginning with an amount equal to the assessment levied in 1953. These refunds were to be placed in reserve accounts by credit unions.

The Board was also authorized to turn over assessments of dissolved credit unions to newly organized credit unions at the same point and composed of generally the same membership. The Board interpreted this to permit the transfer of assessments of an amalgamated credit union to the credit union with which it was being amalgamated.

The other issue raised at the League annual meeting in 1960 was settled in favor of the credit unions, too. An amendment to the Act in 1964 permitted the Board to pay credit unions interest of up to five per cent on their assessment contributions.

Thus, by the mid-1960s, credit unions appeared to have succeeded in clarifying the definition of what the Mutual Aid Fund actually was. It was a portion of their statutory reserves which they were investing in a central fund for their mutual benefit, and which was being returned to them on a revolving basis.

A need for more reserves

However, this arrangement was not acceptable to everyone. The issue was discussed at one League board meeting in 1966. Concerns were expressed about the advisability of revolving assessments in the light of the need for a large reserve. In reply, it was pointed out that the assessments were revolved to forestall agitation from credit unions and, in any case, only small amounts were involved. For example, the 1966 assessment was $400,000, while the refund of the 1954 assessment that year came to only about $37,000. However, it was suggested that, when the refunds reached the $150,000-$200,000 range, the matter should be looked at again.

In fact, the revolving fund was terminated in 1970, long before refunds reached that level. The Mutual Aid Board set up a committee in 1969 to review all its powers, policies and programs, and to suggest possible changes. The review committee was composed of two Board members, Al Snell and Harry Gemmel, the manager of Sherwood Credit Union, and the Board's secretary-treasurer, Balder Johnson. Les Tendler, who was to become secretary-treasurer in 1970, when he became general manager of the amalgamated League-Credit Society, also participated. One recommendation of this committee was that the revolving assessments be terminated and that an interest rate of two per cent be paid to credit unions on accumulated assessments. This recommendation was adopted in 1970.

Another recommendation was related to the method of assessment. A sub-committee of the League's Management Advisory Committee had recommended that the Credit Union Act be amended so that assessments would be a maximum of one-quarter of one per cent of outstanding loans at year-end. However, as the Mutual Aid Board review committee, Al Snell

argued that since changes were being made to the method of calculation of the allocation to statutory reserves — they were to be based on a formula for the determination of loan loss exposure — the assessment should be calculated on a different basis. Since the Fund was designed to provide insurance or protection for credit union shares and deposits, he suggested that assessment should be a maximum of one-fifth of one per cent of shares and deposits. That would continue the Fund's assessment income at the same level as it was at that time.

His recommendation was adopted into the legislation and the new method of assessment was used for the first time in 1970. To cut down on administration, the Board decided to simply debit the accounts of credit unions in the Credit Society for the amount of their assessments. That raised a few hackles. One large credit union questioned the authority of the Board to take that step. One small credit union refused to have the assessment deducted from its account and continued to pay by cheque. The perception of what the Fund was, and what powers the Board had, appeared to be shifting to a more centralized perspective.

The deposit insurance issue

While discussions of the nature and functions of the Mutual Aid Fund were going on, a new issue arose calling into question the adequacy of the Fund in times of major crises. After the financial collapse of two Canadian companies, Atlantic Acceptance and Prudential Finance, in 1966, there was

Bu[illegible] Johnson, secretary-treasurer of the Mutual Aid Board from [illegible] to [illegible] and managing director of the Credit Union League from 1963 to 1968.

a public outcry: many people lost the money they had deposited with these institutions.

The federal government hastily drafted and passed legislation in 1967 setting up the Canada Deposit Insurance Corporation. This new Crown corporation was to insure deposits for up to $20,000 in all federally chartered banks, trust and loan companies. In addition, provincially chartered trust and loan companies could contract with CDIC for similar deposit insurance. In the same year, the Quebec government established the Quebec Deposit Insurance Board to provide the same insurance in that province. The two bodies worked out an arrangement whereby the QDIB would insure all deposits within Quebec and CDIC would insure all deposits in qualifying institutions in the rest of Canada.

While the Canadian legislation seemed to be almost a spur-of-the-moment response to an emotional issue, the deposit insurance issue was not new. The Federal Deposit Insurance Corporation had been created in the United States in 1933 to come to grips with the massive numbers of bank failures there. Bank closures averaged 2,277 per year in 1930-1933, reaching a peak of 4,000 in 1933. Not only were many people losing their savings, but the closures were reducing the money supply. The FDIC was intended to protect the money supply as much as anything else.

Bank failures dropped sharply after the FDIC became operational. They averaged 43 per year between 1934 and 1942, and dropped to four per year between 1943 and 1980. Deposits were initially insured for $2,500. The limits were increased several times, reaching $15,000 in 1966, $20,000 in 1969, and $100,000 in 1980.*

A separate deposit insurance fund was set up for U.S. savings and loan associations in the 1930s as well. A fund for credit unions, providing the same level of deposit insurance coverage, was set up in 1970.

The issue had been discussed periodically in Canada, but it was generally felt that chartered banks, with their massive branch systems and spread of investment and loan risks, were not so vulnerable to failure. Only one Canadian bank had actually collapsed, resulting in a loss of deposits. It was primarily the potential failure of other trust and loan companies that triggered the 1967 legislation.

Should credit unions be included?

The credit union system became concerned about whether credit unions should be protected by deposit insurance, too. In a study of the issue in 1967, Norm Bromberger, then head of the Credit Union Research Council in Saskatchewan, wrote that the Mutual Aid Board acted in the capacity of a deposit insurance corporation. It maintained liquidity by becoming a lender of last resort, and it acted as a dissolution agent for failed credit unions.

However, he pointed out, the Fund had only limited resources to carry out this function. If, for example, many farmers drew heavily on credit unions at the same time, it could create problems. He added:

> This sort of problem for one or two credit unions within the province could be solved by pooling credit union resources to meet just this sort of emergency. However, if it were to become particularly widespread, even though the loan and investment assets held by credit unions were completely sound, the excess cash withdrawals could place them in very serious financial difficulty. The right to draw on funds from outside the credit unions in times of distress would certainly reduce if not remove the danger of such problems.[19]

The Mutual Aid Board also concluded that some form of additional protection might be needed. The Credit Union Act did not specify any particular deposit guarantee other than "assisting in payment of any losses suffered by members of credit unions in liquidation."[20] In certain extreme circumstances, such assistance might turn out to be limited.

In 1966, the Board asked Co-operative Insurance Services (CIS) to look into the possibility of setting up a deposit insurance agency. In 1967, it asked the League to request an amendment to the Credit Union Act, enabling the Board to act as an agent for CDIC when credit unions were permitted to participate in the program. At the same time, the research council was asked to carry out its study.

British Columbia's credit union system set up a share and deposit guarantee fund in 1968, with an unlimited guarantee, but it felt it needed backup credit or insurance. Insurance companies were not interested in providing coverage, since they could not obtain sufficient re-insurance facilities to underwrite such a large risk.

Saskatchewan officials contacted their counterparts in British Columbia to discuss the issue. The consensus seemed to be that CDIC should provide the backup insurance. The Porter Commission had recommended in 1964 that credit union mutual aid funds should be permitted to join any general system of deposit insurance that might be adopted in Canada.

Bromberger, in his report, envisaged the Mutual Aid Board handling dissolutions only as an agent of the CDIC and becoming more of a bad loan reserve. While there was a disadvantage in relinquishing control to an outside agency, this might be weighed against the psychological value of CDIC support. He pointed out, "The backing of the federal government implied in deposit insurance could certainly increase the confidence of members and/or non-members in credit unions. Confidence is a key factor in the operation of any financial intermediary."[21]

Even though the Quebec deposit insurance plan included caisses populaires and credit unions there, the credit union system in the rest of Canada had little success in dealing with the federal government on this

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G. Gingras (centre), president of the Canada Deposit Insurance Corporation, chats with Harold Bratten (left), president of Saskatchewan Co-operative Credit Society, and Norm Bromberger, general manager of the Credit Society, during a visit to Regina in 1975.

issue. Federal Finance Minister Mitchell Sharp said credit unions were excluded from possible membership in CDIC for several reasons: they were not public deposit institutions, since they accepted deposits only from members within the bond of association; they were wholly under provincial jurisdiction; they already had deposit insurance through their mutual aid funds; and they were too small to affect the financial system.

None of these reasons were acceptable to credit union system leaders. As Bromberger noted, credit union shares were more like savings than risk equity; provincial trust and loan companies were given access to CDIC; credit unions were being expected to protect themselves while other financial institutions were backed by the government; and trust and loan companies were small, too.

Lender of last resort

In 1968, an amendment to the Credit Union Act was passed permitting the Mutual Aid Board to act as agent for CDIC but little headway was made in discussions with the federal government. Eventually emphasis shifted away from full deposit insurance for credit union members to a lender-of-last-resort facility for the Mutual Aid Board. Progress was made on this issue and, in 1973, the federal Cooperative Credit Associations Act was amended to permit provincial centrals and stabilization funds to have a lender of last resort through CDIC. Richard Humphreys, the federal superintendent of insurance and a long-time friend of the credit union movement, was instrumental in getting the measure approved.

In 1974 the Credit Society and the Mutual Aid Board became the first provincial credit union institutions to receive approval from CDIC for the lender-of-last-resort facility. The Reserve Board in British Columbia and the Stabilization Corporation in Alberta later received approved status.

Under the agreement, CDIC would provide a short-term loan — not exceeding six months — in the event of a liquidity shortage, if it were satisfied that no funds were available elsewhere. The loan would be at an interest rate higher than the market rate and a number of very onerous conditions were attached. It was not an attractive source of funds, and would certainly be used only as a last resort, something G. Gingras, the president of CDIC, emphasized when he paid a visit to the Credit Society in 1975.

In 1977, provincial legislation was amended to provide explicitly an unlimited guarantee on all credit union shares and deposits and, in a related move, the powers of the Mutual Aid Board were increased substantially. Interest in federal deposit insurance continued to wane.

In 1982, there was a brief revival of interest in the issue, but unofficial contacts with federal officials showed that the federal position on deposit insurance for credit unions had not changed much in 15 years. The Mutual Aid Board was reaffirmed in its conviction that the advantages of federal deposit insurance were not worth the price. The Mutual Aid Fund not only offered a much more comprehensive deposit guarantee than the CDIC, but the Board also had very effective preventive and rehabilitative programs not available through CDIC. Moreover, through the Board, the credit union system was able to retain a degree of self-regulation that would not be possible with CDIC protection. Existing deposit protection measures were preferable in every way. The issue was not pursued further.

What the deposit insurance issue did in the early 1970s, though, was highlight the need for changes that would strengthen the capability of the Mutual Aid Fund to provide a full deposit guarantee.

Footnotes

[1] *Report of the Royal Commission on Banking and Finance* (Ottawa: Queen's Printer, 1964), p. 170.

[2] Credit Union Reserve Board, *Annual Report*, 1961.

[3] Report by C. A. Small to the Mutual Aid Board, 1959.

International Share and Deposit Guaranty Association, *1982 Factbook: State Share Insurance*

[5] Department of Co-operation and Co-operative Development, Province of Saskatchewan.

[6] Saskatchewan Co-operative Credit Society, *Annual Report* 1970; The story of the rejuvenation of Spiritwood Credit Union was told in *Credit Union Way*, October, 1965, p. 6-7

Credit Union Way, August, 1966, p. 2.

[8] See Christine Purden, *Agents for Change: Credit Unions in Saskatchewan* (Regina: Saskatchewan Co-operative Credit Society Ltd., 1980), p. 145-154.

FDIC: Symbol of Confidence (Washington: Federal Deposit Insurance Corporation, 1980).

[10] Norman Bromberger, *Deposit Insurance for Saskatchewan Credit Unions: A Study* (Regina: Credit Union Research Council, April, 1968), p. 10.

Bromberger, *Deposit Insurance for Saskatchewan Credit Unions*, p. 9.

CHAPTER FIVE

Expanding the Role of the Mutual Aid Board

Although the development of the Mutual Aid Board was affected by changes taking place within the credit union system and by the attitudes of credit union leaders towards it during the 1960s, the concept of the Fund was still not entirely clear by the end of the decade. For a time, it appeared that the Fund would become little more than a central pool containing a portion of credit union reserve funds, with severe limitations placed on growth in its size and powers.

However, any fears on the part of credit unions that the Fund might grow into an uncontrollable monster were balanced by another fear. This was a concern that, in a rapidly growing credit union system, there might be no adequate mechanisms to cope with future serious credit union financial problems or, even more importantly, to attempt to head off problems before they became serious threats. So the Fund continued to grow after it reached the $1 million goal in 1964 and the Board continued to take on new functions at the same time that its purpose and role were being debated.

By the early 1970s, it was evident that the credit union system would have to rely primarily on its own resources to provide deposit insurance, something that was now expected of all financial institutions in order to maintain public confidence. At the same time, other issues arose which played an important part in expanding and substantially clarifying the role of the Board by the late 1970s. Like the deposit insurance issue, these issues involved the relationship between the credit union system and government.

The taxation issue

This issue, which brought the credit union system into conflict with the federal government, resulted in a large-scale restructuring of the Fund during the 1970s. The issue of whether credit unions should be taxed was not new. In 1944, a federal royal commission on co-operatives, which included Barney Arnason as one of its commissioners, studied the issue of taxation under the Income War Tax Act.

The royal commission report in 1945 supported the credit union system's position that credit unions were essentially different in purpose, ownership, and operation from privately owned corporations, and that their net earnings were not profits but savings generated on behalf of members. The federal government agreed to maintain the existing tax exemption and extended it to include credit union centrals as well.[1]

The issue came up again in the 1960s during the hearings of the Carter Royal Commission on Taxation. The credit union system once again made submissions urging continuation of its tax exempt status. But by the 1960s, the credit union system had grown much larger and more visible to the general public. Private financial interests were growing alarmed by the rapid growth of credit unions as a new form of competition, and they were complaining that tax exemptions were unjustified, because they gave credit unions an unfair competitive advantage. A group called the "Equitable Income Tax Foundation" mounted a public campaign to pressure the government to remove all tax exemptions for credit unions.

The Carter Commission report in 1967 recommended a removal of tax exemptions and, despite objections from the credit union system, the recommendations were incorporated into a federal government white paper on tax reform in 1969 and into draft legislation tabled in 1971.[2]

The credit union system saw the new legislation as undermining the basic concept of co-operation. Leaders organized a national protest against the legislation. Lengthy negotiations resulted in amendments to preserve the integrity of credit unions as co-operative organizations, but in 1972, credit unions became taxable as Canadian corporations.[3]

Prior to the passage of the new Income Tax Act in 1972, there was considerable speculation about the Act's possible impact on the Mutual Aid Fund. The ensuing debate among credit union officials helped to bring the structure, role and functions of the Fund and Board into clearer focus.

For example, it was argued that Fund assessments might be taxed at the credit union, so assessments should be shown as expense items and deleted from credit union balance sheets. Also, the two per cent interest paid on investments in the Fund should be discontinued, and offset by a reduction in assessment. These recommendations were later adopted, thus making it clear that the Fund was not owned by credit unions.

After the Income Tax Act became law, it took almost six months for credit union officials to obtain a ruling on its application to stabilization

Joe Dierker, legal counsel for the Mutual Aid Board and the Credit Society, explains the implications of the Income Tax Act at a meeting in the early 1970s. Seated behind him is John Barr of the Credit Society.

funds. During that time, the Department of National Revenue chose to examine one fund, the Mutual Aid Fund, in depth. The opinion received in early 1973 came as a shock: the Mutual Aid Board was a body corporate and should calculate income taxes as a Canadian private corporation. Credit unions could deduct the Fund assessments as expenses for tax purposes, but the Fund would have to pay tax at an effective rate of about 50 per cent on both net earnings from investments and on assessments from credit unions. Not only that, but the taxes would be retroactive to the inception of the Board. With the potential for tax penalties and interest charges, the Fund could be seriously depleted.

The Board responded in two ways. Together with the other three stabilization funds in Western Canada, it filed a tax return under a special section of the Income Tax Act as a non-profit organization exempt from tax. Also, acting on behalf of all other stabilization funds in Canada, the Board launched a strong appeal to federal Finance Minister John Turner. It argued that the taxes would have dire implications for the Fund, for Saskatchewan credit unions and, ultimately, for the economy of the province. At the same time, various alternatives were being considered to reduce the Fund's taxable income. For example, grants could be made to cover non-capital operating losses of credit unions carried forward, arising because of bad loans. In addition, assessments could be reduced.

To have tax free status, the Board felt that it must ensure that it remained a completely separate entity from the Credit Society. But it was also felt that the Fund must be developed in close conjunction with the Credit Society to avoid what were perceived as "political problems" in the credit union systems of other provinces. The result was a more formal arrangement of the relationship between the Board and the Credit Society. In 1972, the Mutual Aid Board agreed to a proposal by the Credit Society that administrative fees paid to the Society should reflect the actual cost of providing these services to the Board. Between 1972 and 1973, the management fee paid by the Board went up from a nominal $3,500 to $200,000, which was far more representative of actual costs. In 1974, to maintain a clear record for tax purposes, the Board asked its legal counsel to draw up a management agreement between the Board and the Credit Society.

In 1974, a federal government order-in-council established that stabilization funds would remain tax free until January 1, 1975. After that date, assessments and any grants to credit unions paid out of assessments would be non-taxable. Earnings of stabilization funds, less expenses, would be segregated from assessments and subject to income tax at corporate rate.

The stabilization funds opposed the proposed agreement and they appointed a committee to meet federal officials in August, 1974. They restated their original position that stabilization funds should have tax free status. After some negotiations, they modified their position, asking that expenses for preventive work — which included a wide range of services — should be deductible, and that investment income should be tax free to avoid double taxation.

When the taxation actually came into effect in 1975, the tax bite was modest. The Fund was divided into a tax-free assessment fund, and an income fund taxable at 25 per cent, not the corporate rate of 50 per cent. Most relevant operating expenses, including costs of preventive work, could be written off from the income segment.[4]

At about the same time as the new tax status was coming into effect, the Board met with representatives of the Department of Co-operation to discuss legislative changes that would spell out the powers of the Board more clearly. The changes were necessary both because of the tax position of the Board and because of its involvement with CDIC as lender of last resort. The legislative amendments, when they were passed in 1977, marked the culmination of the process of expanding and clarifying the role of the Fund.

Relations with the provincial government

The federal government generally tended to be seen as somewhat remote from the credit union system, even though some legislation, such as the Income Tax Act, had an important impact on the structure and operations of the credit union system. The provincial government was seen very differently. From the beginning, it had played a very active role in promoting and developing the credit union system in Saskatchewan. Barney Arnason, a lifelong civil servant, was one of the fathers of the credit union system in the province. Mac MacLean and Al Snell, two other long-time civil servants, played an enormous part in the development of the system during its first three decades. In the early years, the League, without any full time staff, operated out of the offices of the Department of Co-operation.

Although the close and rather unique relationship between the government and the credit union system was beneficial to the system during its formative years, there was a recognition that it could not continue in the same way. Tom Molloy, who later became the League's first full-time

By the early 1970s the credit union [illegible] [illegible] [illegible] to [illegible] with the federal government. This delegation from the Credit Union Central of Saskatchewan board of directors attended a government affairs conference in Ottawa in [illegible].

managing director, wrote in 1949: "In those provinces and states where too much dependence is placed upon governmental or other co-operative organizations, the movement tends to degenerate and a large volume of self-reliance and ability to meet local conditions on the part of local credit unions is destroyed."[5] Arnason agreed with the need for the movement to develop the capability to manage its own affairs.

In fact, that did happen. During the late 1950s and early 1960s, the system, through its centrals, had assumed responsibility for promotion, development, and education. Later, the centrals also took responsibility for policy guidance and operational advice. League managing director Baldur Johnson explained some of the reasons in 1969: the tremendous growth of credit unions had not been matched by increased resources in the government department, and there was a conscious determination on the part of credit unions to become more self-sufficient.[6]

This transfer of responsibilities was carried out amidst continuing close and friendly relations between the provincial government and the system until 1967, when Arnason retired. His replacement as deputy minister and registrar was Wilf Gardiner, a political appointee, and the relationship between the Department and the credit union system became strained, especially between 1967 and 1971.

One issue involving the Mutual Aid Board demonstrated the strains. In 1968, the Department announced that it would begin to charge inspection fees, and credit unions were outraged. Even though the Minister of Co-operation explained that the fees covered only 30 per cent of the cost of inspections, that provision for them was made in the original legislation, and that 40 other provinces and states assessed inspection fees, credit union leaders were dissatisfied. They argued that the quality of inspections was poor and that Department inspectors were intruding on the responsibilities of the centrals' field staff. In some credit unions, it was made clear that Department representatives were not welcome. There was talk of the credit union system establishing its own auditing service.

Eventually, it was agreed that the Mutual Aid Board would pay the 1968 fees, totalling nearly $50,000, and they would be shown in credit union books as grants from the Board offset by the payment of fees. Beginning in 1969, however, credit unions would be required to pay the fees themselves. The fees were dropped in 1972, following the election of a new government.

New powers

With a major revision of the Credit Union Act under way during the early 1970s, officials of both the Department of Co-operation and the credit union system agreed that special attention would have to be given to the section of the Act covering the Mutual Aid Board. Many credit unions experiencing financial difficulties were considering amalgamations and

they were requesting assistance from the Board. A thorough study was made of the British Columbia Credit Union Act and the powers of the Credit Union Reserve Board in that province, when changes were made in Saskatchewan legislation increasing the powers of the Mutual Aid Board.

The proposed changes were not welcomed by everyone, however. The draft legislation was explained to credit union officials at a series of district meetings in 1970. While the overall intent of the legislation was accepted in most districts, concerns were expressed that, for example, centralization would be forced on unwilling credit unions and that the powers of the Mutual Aid Board would be too broad. Assistance from the Board was certainly welcome, but there was reluctance to accept the notion that the Board would need some "teeth" to make its assistance effective, as well as to prevent credit unions from getting into difficulties.

By 1972, there appeared to be a general consensus within the system that it was necessary for the Board to be strengthened. The Board had become almost a totally new entity. The termination of the revolving fund plan and interest paid on credit union assessments, as well as the removal of assessments from credit union balance sheets, had in effect ended credit union "ownership" of the Fund. At the same time, the Board had acquired greatly expanded powers to intervene in the affairs of credit unions. It had become a more independent agency capable of playing a much more significant role in the credit union system. Yet it was still subject to the direction of the system by virtue of the fact that three of the five Board members would be from the system, and management would continue to be provided by the staff of the Credit Society.

The powers of the Board were expanded in six areas. There was a broad expansion of power reflected in the section permitting the Board to provide preventive services necessary to avert financial losses to credit union members. The preventive services were not defined specifically, it being assumed that they would be all-inclusive.

The Act also permitted the Board to establish a wide range of insurance programs, including fire insurance, bonding of employees, insurance against burglary and theft, deposit insurance and public liability insurance; the Board could make any such program compulsory. In earlier years, the League had assumed responsibility for certain insurance programs.

Under a third new provision, the Board was allowed to establish a Central Credit Committee responsible for considering certain loans referred to it by credit unions. This was an attempt to establish some controls over lending practices, which were the causes of many credit union financial difficulties.

Perhaps the most important new section of the Act gave the Board the power to put credit unions under its supervision if they were conducting their affairs in a manner that threatened to impair the security of their members.

Le [illegible]cretary-treasurer of the Mutual Aid Board from 1970 to 1972, and general manager of the Saskatchewan Co-operative Credit Society from 1963 to 1972. In 1979 he became a member of the Mutual Aid Board.

A related, and somewhat controversial, provision empowered the Board to inspect and administer credit unions under supervision if they did not correct any practices that were likely to contribute to the unsound conduct of their affairs. At the 1970 district meetings, there had been some reservations expressed about the Board being given the power to remove a credit union manager.

The sixth new provision was a further removal of limitations on the size of the Fund that had existed in earlier years. It permitted the Board to provide for an additional assessment from credit unions if the capital of the Fund was about to be impaired.

The revised Act represented an important shift toward increased self-regulation by the credit union system. For example, the registrar already had the power to appoint an administrator where such action was justified by the financial condition of a credit union. Under the new legislation, the Mutual Aid Board could request that the registrar appoint it as administrator. In other words the Board, rather than the government, would now determine when a credit union should come under administration. Another example of this shift was the power of the registrar to excuse compliance with requirements for allocation to statutory reserves. Where a credit union was subject to supervision by the Mutual Aid Board, the revised Act permitted the Board to exercise this power in place of the registrar.

Defining roles

By the late 1960s, it had become clear to many people that something would have to be done to sort out the roles of the various bodies dealing with credit unions. The growing strains in the relationship between the government and the credit union system were accentuated by the fact that the credit union system wanted a greater degree of self-regulation. Meanwhile, not everyone in the provincial Liberal government was convinced that there should even be a Department of Co-operation. The general consensus in the credit union system seemed to be that the Department should continue but that its role should be defined more clearly.

At the same time, there was a certain amount of confusion about the roles of credit union organizations. Some of the potential problems in establishing roles and responsibilities were resolved when the League and Society amalgamated. But there was still the Mutual Aid Board, which stood somewhere between the new central and the government. Its responsibilities were not entirely clear either.

The debate on roles, which got its first full airing at district credit union meetings in 1967, led to the establishment in 1971 of a joint committee with representatives from the Credit Society, the Department of Co-operation and the Mutual Aid Board. Chaired by Credit Society vice-president Chris Hansen, the Role Committee, as it came to be called, was given the task of carrying out a thorough study of the jobs to be done, who should do them and the costs involved.

The committee prepared detailed lists of all the existing responsibilities of the government, of auditors, of the Mutual Aid Board, and of the Credit Society. It also outlined how responsibilities should be divided up in future

The work of the committee formed some guidelines for the revision of the Credit Union Act. The primary role of the Mutual Aid Board would be to provide financial assistance and supervision to credit unions and, if necessary, place credit unions under direct administration of the Board. In relation to the Board, the Department was responsible, in conjunction with the interested groups, for setting down minimum audit standards for credit unions, and for inspecting and, if necessary, referring credit unions to the Board for supervision. The Credit Society was responsible for assistance to the Board in the areas of administration and supervision of these credit unions, and for the development and implementation of preventive programs.

In 1972, following the election of a New Democratic Party government, Premier Allan Blakeney told a Credit Society annual meeting that the Department of Co-operation had been de-emphasized by government in recent years, and that its role needed redefining. He later appointed a four-member committee, headed by Chris Hansen, to advise him on co-operative matters. The committee was given the full powers of a commission to conduct hearings. In 1973, the commission completed a report, generally referred to as the Hansen Report, which urged a strong government commitment to co-operative development, and recommended the establishment of a co-operative advisory council and the reorganization of the Department of Co-operation.

Later in 1973, Harry Gemmell, the newly appointed deputy minister of co-operation, told the Credit Society board that the Department would in future emphasize development, information, education, and research. It would continue, but de-emphasize, credit union inspection and supervisory activities, thus creating a void that must be filled.

Norm Bromberger, who became general manager of the Credit Society and secretary-treasurer of the Mutual Aid Board in 1973, was also forming a view of how the relationship between the Board and the government should be developing. In February 1974, he reported to the Mutual Aid Board:

> By offsetting losses on bad loans, our fund protects the deposits of the members (public) not only through direct pay out but through all kinds of remedial action. It seems to me that the government's position in this case, as it seems to be developing in this province, is to ensure that the public is protected. This does not necessarily mean active involvement in the operations of the fund. I am suggesting that the legislation should spell out the broad guidelines for action of our Mutual Aid Fund and the Mutual Aid Fund should then, within these guidelines, insure the stability of credit union deposits in Saskatchewan. That means that the role of the Mutual Aid Fund and Board is complementary to that of the provincial government.

At a meeting in 1974 between Bromberger and Bill Baumgartner, who had just been appointed deputy minister, a new liaison committee was

proposed to deal with all issues, including controversial ones, involving the government and the credit union system. It was suggested by Bromberger that the committee include two Credit Society staff members, as well as credit union management, and elected officials of the Credit Society and the Mutual Aid Board.

Role task force

The liaison committee began to meet early in 1975 and it discussed changes to legislation affecting the Mutual Aid Board. In December 1975 a four-member task force was set up to work on the definition of roles between the Department and the Board. The committee, which included Paul Dosch and Ed Cunningham of the Credit Society as Board representatives, was also asked to establish standard procedures for reporting and monitoring, and actions required relevant to credit unions operating in an unsound manner.

In 1976, the Minister of Co-operation, Ned Shillington, told the liaison committee that growth of the Department was being constrained by budget limitations. He suggested that the Mutual Aid Board take over some inspection activities, although final inspection authority would remain with the Department. Four more members, including John Barr of Central and Vic Keep of Assiniboia Credit Union, were added to the task force, and it was given responsibility for studying and reporting on the future role of the Mutual Aid Board, the Department, and commercial auditors regarding audits, examinations, and inspections.

The task force concluded its meetings and indicated that responsibility for examinations should be delegated to the Board. It prepared the following motion: "That as the Mutual Aid Board provides an unlimited guarantee of share savings and deposits in credit unions, it is essential that preventive measures be initiated to minimize claims against the Fund. The monitoring, examining, regulating and the establishing of a comprehensive reporting system by and for the credit union system will provide basic public protection and aid in insuring sound credit union operations." That statement neatly summarized the goals towards which the Board was moving. Within the next five years these goals were achieved.

Chris Hansen, who had become president of Central, took the recommendations of the task force to Premier Blakeney and discussed amendments to the Credit Union Act, and the implications to the credit union system of phasing in the examination and inspection functions. In December, 1976, the liaison committee set up a special committee to examine and recommend the roles of the Department, the Board, Central, external auditors, and the bond carrier. The Mutual Aid Board agreed in principle to the changes and appointed John Barr to develop a detailed program for it by March, 1977.

Chet [illegible], former president of Credit Union Central of Saskatchewan and chairman of the Mutual Aid Board from [illegible] to 1977.

The amendments were passed by the legislative assembly in 1977 marking, as Bromberger put it in a letter to credit unions, a climax to 20 years of discussion about the respective roles of the government, Central, and the Mutual Aid Board. It would still take some time to implement the new roles fully, he added. But, contrary to a generally held belief, the roles had been changing gradually for several years. He pointed out that, with the 1977 legislative amendments, the roles were clearly stated for the first time.

Shaping policies and programs

While negotiations between the credit union system leaders and the federal and provincial governments were making it possible to develop a new, more effective Mutual Aid Board with expanded powers, the task of developing new policies and putting them into action remained to be done.

The revised Credit Union Act in 1972 stated the overall purpose of the Board — protection and stabilization of credit unions in financial difficulties and provision of preventive services — but no guidance was given for the carrying out of its functions. As Bromberger pointed out in 1973, the Board had no established aims, objectives or policies to assist it in forming a consistent base for dealing with credit unions under the powers given to it. If the Fund was in fact providing an unlimited guarantee of savings and deposits through the process of protecting itself from losses, it would have to take a much more active role.

In December, 1973, the Mutual Aid Board held a special meeting to develop aims and objectives. John Barr and Dale Hillmer of the Credit Society staff, who were handling most of the Board's operational duties, were given the responsibility to draft policy guidelines. The proposed objectives were that the Board should work with government and audit firms to carry out effective audits, and follow up on problem areas uncovered by audits; develop procedures for supervision and administration of credit unions; and develop more effective asset management procedures for assisting in credit union amalgamations so losses would be avoided.

The FDIC model

The example of British Columbia's Credit Union Reserve Board was used extensively in the development of the 1972 legislative amendments affecting the Fund and in the subsequent creation of Board policies. In addition, the Federal Deposit Insurance Corporation in the United States provided a model for the formation of policies and programs. Board officials travelled to Washington, D.C. on several occasions to study FDIC operations.

Deposit insurance through the FDIC is required by law for all national banks, most state banks, and trust companies. Included in the coverage are the shares of mutual savings banks, which are somewhat similar to credit unions.

The FDIC has the power to inspect and examine all insured banks, although it concentrates on state-chartered banks not in the Federal Reserve System. Each bank is examined at least every 18 months, and banks with financial problems are examined more often. The examiners provide advice to the banks, and the FDIC can order a bank to desist from any unsafe or unsound practices. All insured banks also submit quarterly

reports which are analyzed and form an essential part of the FDIC's monitoring system.

The FDIC provides several forms of assistance. It can make loans, purchase assets, or deposit funds in an insured bank in danger of closing. If a bank does fail, the FDIC acts as receiver and may arrange for a merger with a healthy bank. It arranges a "purchase and assumption" transaction in which the healthy bank takes over many of the assets and assumes the deposits of the failed bank. The FDIC assumes unwanted assets, such as bad loans and investments, and liquidates them. If a deposit payoff is required, it is made immediately, up to the insurance limit. Amounts in excess of the limit are treated like any other debt of the bank. The FDIC can also organize a "deposit insurance national bank" to supply limited services on a temporary basis to a community that has lost its only bank facility.

The FDIC's liquidation operations are an important aspect of the protection of the money supply. A large staff works at turning bad loans and investments, bank buildings and equipment, and security from defaulted loans into cash. Between 1934 and 1979, disbursements by the FDIC totalled $5.2 billion, while recoveries from the liquidation of failed bank assets totalled $4.9 billion.

The Insurance Fund was initiated with capital provided by the U.S. Treasury and the Federal Reserve Banks. This capital was retired by 1948 and, since then, the fund has been built through assessments on insured banks and interest income. In 1980, the fund totalled $10.8 billion, which was 1.15 per cent of estimated insured deposits. The FDIC can also borrow up to $3 billion from the U.S. Treasury in an emergency. The annual assessment rate is one twelfth of one per cent of average total deposits, but the effective net assessment rate has normally been less than half of that amount.[7]

The Mutual Aid Board adopted some of the programs of the FDIC, but the Board's role, as defined in the 1972 legislation, was intended to be somewhat different from that of the FDIC. It was committed not only to protecting members' deposits, but also to supporting and ensuring the survival of the credit unions themselves, if at all possible.

Rehabilitative functions

In its attempts to nurse credit unions with financial difficulties back to health, the Mutual Aid Board had been empowered since 1953 to provide financial assistance. Through its experience with the credit unions at Arran and St. Gregor during the 1950s, the Board had developed the policy of providing interest-free or low interest loans to credit unions. Outright grants were only made in certain circumstances.

In the early 1970s, concern about the effects of taxation on the Fund led to questions being asked about whether the interest free loan policy should be continued. Some Board members felt these loans should be replaced by

advances to write off bad loans. These would be set up in the Board's books as payables, depending on the government's interpretation of the Income Tax Act. It was also believed that taking large bad loans off the hands of credit union managers might relieve some of the pressure on them.

In 1974, the Board decided to discontinue interest-free advances, and it adopted a policy of guaranteeing operational losses (capitalized expenses) of credit unions arising from bad loans. However, a year later, after taxation of stabilization funds was introduced, it became clear that interest-free loans could be made, and a new policy was developed. The loans would be made to credit unions located in potentially viable communities, if the capital of members was impaired and if amalgamation or dissolution of the credit union were not possible. The credit union would be placed under supervision or management contract, all purchase and disposition of assets would have to be approved by the Board, and all rates charged or paid by the credit union would have to be approved by the Board. Repayment would be on a five-year term, beginning not more than two years after the date of the loan.[39]

The loans were used to help a number of credit unions recover from difficulties. In 1974, there were seven outstanding loans for about $1.1 million. In 1978, there were loans totalling about $667,000 to five credit unions. The policy has continued to be used effectively, allowing credit unions to earn the full amount of interest on the borrowed funds while they correct the problems facing them.

Supervision and administration

The powers of supervision and administration were introduced in 1972. According to the Credit Union Act, a credit union would be placed under supervision by the Mutual Aid Board if it was unable to pay a dividend unless indulgence was granted regarding its reserves covering loss exposure; if the amount in statutory reserves after deducting loss exposure was less than one per cent of outstanding loans; or if the registrar advised the Board that a credit union was operating unsoundly. The registrar could also prohibit supervision. The supervision would be ended when the circumstances that caused it ceased to exist or the credit union were liquidated.

The supervision powers of the Board included: exercising the registrar's powers to grant indulgence regarding reserve requirement, inspecting the affairs of credit unions, ordering audits of credit unions, ordering the correction of unsound practices; requesting the registrar to appoint the Board as administrator; or recommending to the registrar the amalgamation or liquidation of the credit union.

The power to grant indulgences was given to the registrar after the legislation regarding statutory reserves was changed in 1970, and came to be based on a calculation of loss exposure. Credit unions that could not make the required allocation of surplus to statutory reserves could apply to the

[illegible] Br[illegible]nberger, general manager [illegible] of the Credit Union Central of Saskatchewan since 19[illegible]3. He was secretary-treasurer of the Mutual Aid Board from 1973 to 1977 and has been a member of the Board since 1977.

registrar for an exemption. The registrar could then refer a credit union to the Mutual Aid Board for financial assistance in the form of a guarantee of operational losses, permitting the credit union to pay a reasonable dividend. In 1971 there were 44 requests for indulgence and 12 credit unions were referred to the Board for guarantees. In 1972, the Indulgence Committee was set up with representation from the Board and the Department of Co-operation to review the applications from credit unions, and make recommendations to the registrar.

The 1972 legislation regarding supervision had implications for the operation of the Board. The Board or its representatives could exercise authority only in credit unions that were declared to be under supervision. Central staff could act as agents or employees of the Board, but they only had authority as delegated by it. Supervision implied making suggestions or recommendations to credit union management or officials to bring about the desired improvements in policies or operations. Administration provided for credit unions to be taken over by the Board and operated until necessary improvements were made.

A summary of the situation in 1974 showed that three credit unions were under supervision, and four other credit unions had received Mutual Aid Board advances but were not under supervision. It was Bromberger's opinion that, if the Credit Union Act were interpreted more strictly, they would be placed under supervision. In addition, there were seven credit unions with management contracts and Development Fund assistance, and 12 credit unions that had been granted dispensations from the Indulgence Committee.[11]

Aside from the fact that not all credit unions needing supervision were getting it, there was a feeling that the Board's powers were inadequate. In a letter to John Barr in 1974, Board solicitor Joe Dierker gave his opinion that the Board had little real power when a credit union was under supervision, and that the registrar could turn down a request to place a credit union under administration.

The Board task force in 1974 proposed several amendments to the Credit Union Act to strengthen the Board's supervisory powers. It said that all credit unions should be subject to supervision at the discretion of the Board, and the registrar should not be able to prohibit supervision. Also, the Board should have sole discretion to decide when to terminate supervision, and could place a credit union under administration unless the registrar disallowed its order within 15 days. The task force also recommended that the Board monitor all credit unions at least annually, and it established criteria for determining whether a credit union was conducting its affairs in a financially unsound manner. The supervision powers of the Board were strengthened in later amendments to the Act, although not all of the task force recommendations were adopted.

Dissolutions and amalgamations

The Board also developed policies to deal with dissolutions and amalgamations involving credit unions in which it had a financial interest. The number of dissolutions had dwindled but there were numerous amalgamations — 32 in the period from 1970 to 1977.

In 1974, the Board task force developed a policy for assistance in cases of amalgamation. The Board would guarantee the aggregate of operating

losses of the present year to the date of the amalgamation, capitalized expenses of the preceding year and past-due and current-year instalments of Development Fund loans. From this amount would be deducted any amounts in the general reserve and undistributed surplus of the amalgamating credit union.

The Board also undertook to purchase bad loan losses in excess of statutory reserves at the date of the amalgamation and guarantee future losses for five years on loans assumed by the continuing credit union, to a maximum of five per cent of the loan portfolio assumed.[2] Bad loans were defined as loans where there had been no payment of interest or principal for at least two years, losses on foreclosed property, statutory writeoffs, and other mutually agreed upon loan losses.

The Board had been assisting the development of credit union branches through amalgamations since the late 1960s. In 1974, Drake Credit Union asked for Board assistance for the development of a new branch at Lanigan. The Board decided to extend its policy to include new branches. The policy established in 1975 provided for Board approval for the capitalization of branch development costs up to a maximum level. These costs could be written off against income over a five year period, provided general reserves were not reduced below the amount of the capitalized costs. In 1979, a new formula for branch development assistance was created. The Board would provide a loan of three per cent of branch assets, or $100,000, whichever was less, with repayment in two years.

Size of the Fund

The primary duty of the Mutual Aid Board was to be prepared to deal with any problem that might arise. That meant the Fund had to be large enough to cover any necessary assistance to credit unions or payouts to depositors. In the original legislation in 1953, a goal of one per cent of total credit union assets had been established for the Fund. Ten years later, the feeling seemed to be that, when the Fund reached $1 million, it would be possible to begin returning assessments to credit unions. That goal was reached in 1964, but the need for continued growth remained, as total credit union assets continued to surge upward. By 1970, the Fund had reached $4 million and few people were saying it was too large.

A new method of determining fund adequacy through the use of a computer model was devised by Prof. R. W. White in British Columbia. Beginning in 1974, the model was used to test the adequacy of the Mutual Aid Fund. In subsequent years, the model was refined to suit economic conditions in Saskatchewan more closely.[3]

The basic problem in arriving at an adequate figure is determining the number and size of potential claims on the fund. White devised a simulation model of the Fund using a formula composed of six variables: loan

delinquency rate; ratio of total loans over total assets; coverage, or net revenue over total revenue; financial risk, determined by adding loans payable and accounts payable and dividing by total assets; operating efficiency, which was net operating expenses divided by total assets; and a growth index.

After data from all credit unions were fed into the computer, the White model was used to arrive at a "probability of distress", rating all credit unions as to the likelihood of their drawing on the Fund, and the likely size of the claims. In 1976, his model showed that the Fund was about $7 million short of what it should be, but after consultations, it was decided that the model needed some updating to suit the circumstances more closely.

Since then, the Board has developed a sophisticated monitoring system and is developing the capability to construct models providing a more comprehensive analysis of various operating conditions and simulating a variety of scenarios. The goal of the Fund remains one per cent of total credit union assets, and it has consistently been at or near that level since the late 1960s.

Investments

In addition to ensuring that the size of the Fund was adequate, the Board had to maximize the safety of the Fund and maintain its ability to absorb the costs of preventive services by earning a reasonable return on the Fund. This meant that an investment policy was required. In the early years, most of the Fund not on loan to credit unions was held in Credit Society shares and term deposits. Later, the Board invested in Co-operative Trust Company shares and guaranteed investment certificates and in Saskatchewan government bonds as well.

A firm investment policy was not established until 1974. The basic policy was to invest a maximum of 50 per cent of the Fund in government bonds or bank or trust company deposit certificates, and the remainder in the Credit Society and Co-operative Trust.

In 1978, the policy was revised so that investments outside the credit union system would be at least 55 per cent of the total, and investment in Central shares would be 20 to 40 per cent. A maximum of 33 per cent of the total would be in maturities in excess of 10 years. The Board also contracted with Canadian Co-operative Credit Society to have its investment portfolio managed by the national society. That arrangement was terminated in 1982 because of the cost and the minimal investment activity.

A look at the Fund in October 1982 demonstrated the need for investments to earn a good return. Of the total Fund assets of about $34 million, more than $10 million were in assistance loans or acquired credit union loans earning no interest.[14] There was also the possibility of a substantial loss on a loan to University Credit Union in Saskatoon, whose

John Bo[illegible] the first manager of the Mutual Aid Board, a position he held from 1978 to 1982.

activities were being wound up. As a result, it was possible that some ground might be lost in maintaining the target of one per cent of total credit union system assets. On the positive side, it was demonstrated that the Fund could absorb a sizeable loss and still suffer only a temporary setback.

Central Credit Committee

One of the most important preventive programs of the Mutual Aid Board related to loans. With the great influx of deposits into credit unions during the 1960s and 1970s, managers were almost forced to go out and solicit loans. An increasing number of them were large business loans and few managers had much experience in this rather complex lending field. Local credit committees rarely had the experience to assess or monitor business loans properly either. Inevitably there were problems and it became clear that something would have to be done at the central level to prevent the situation from deteriorating.

One measure taken to deal with the problem was the provision in the 1972 Credit Union Act for the Mutual Aid Board to set up a Central Credit Committee to consider loan applications from credit unions. The new committee would concentrate its efforts on reviewing business loans and loans by credit unions to their own staff and directors.

The Central Committee was organized in May, 1972. It was composed of the members of the Credit Society credit committee, as well as the chairman of the Mutual Aid Board, and John Barr, who was handling much of the Board's administrative work. The committee immediately began to develop application forms and began to consider loan referrals in October one month after the revised Act came into effect.

In its first month, the committee met 10 times and considered 55 loans, declining eight of them.[15] A special committee made up of three members of the Central Committee was set up to handle applications from credit unions under supervision or receiving financial assistance from the Board. Some of these credit unions were required to refer all loans of over $5,000 for approval.

The new regulations caused a certain amount of unhappiness in credit unions. In particular, some credit union officials whose loans were referred to the Central Committee felt that they had been reduced to the status of second class members and they considered resigning. The Board agreed that there were some legitimate concerns. At a meeting in December, 1972, it was suggested that a list of credit unions where loan administration was properly handled should be drawn up, and the regulations should be amended to permit approval of progressively larger loans. The list would have to be kept under constant surveillance.

By 1974, the Central Committee was very active. During the year, it considered nearly 1,000 loan applications, approving 762 loans for a total of $25.3 million.[16] The Board gave the Central Committee authority to ask for quarterly reports on some or all of the approved loans. It was also working to establish a more effective means of handling loans and reducing risks in the business loan area. It was considering the possibility of hiring a qualified individual to assess business loans on behalf of credit unions. At the same time, the Credit Society decided to hire a loss prevention officer.

There was also a feeling on the Board that existing legislation on loan approvals contained too many limitations and restrictions. It was proposed that loan granting limits and processing be made more flexible through broad guidelines in legislation, with specific limitations and controls granted by the Board on application by credit unions.

Another step taken by the Board to improve the quality of loans was the expenditure of $10,000 in 1974 for the preparation of a business loan manual, similar to one developed by the Credit Union Reserve Board in British Columbia. The manual, which was prepared by Wayne Nygren of the Credit Society, included a general statement of business loans policy under the Act, business loan applications, analysis of business loans, security requirements, and business loan follow-ups. The manual was completed later that year and distributed in 1975 to all credit unions and the Department of Co-operation inspection staff.

The manual was followed by a business loan course and lending seminars. It appeared to help improve the ability of credit unions to process loans. By 1978, the number of business loans referred to the Central Committee was double the amount in 1974, but the number of loans deferred or declined had not increased.[17] In 1975, work began on an agricultural loan manual and a model credit union loan policy.

In 1982, Gail Dall joined the MAB management team as supervisor of risk management services. Among her duties were the updating and revision of operations, loans and policy manuals.

Bonding and Insurance

Another important loss prevention function assumed by the Mutual Aid Board was bonding and insurance. The Board had been involved in supporting programs, for example through its loans to credit unions for the purchase of safekeeping equipment. In 1972, the Credit Union Act transferred responsibility for bonding and insurance programs from the Credit Society to the Board.

Shortly after the Act was passed, a committee was set up to reassess credit union bonding and insurance requirements. One issue singled out for special attention was fidelity and faithful performance. Some people felt that faithful performance basically insured mismanagement. There were also suggestions that credit unions should accept responsibility for a portion of each claim and that, since the Mutual Aid Board was responsible in the final analysis, it could carry re-insurance to protect the Fund against any catastrophic losses.

Among the recommendations made by the committee in 1973 were the following: faithful performance coverage should be mandatory; fidelity and faithful performance coverage should be 100 per cent of assets up to $3 million; burglary and robbery coverage should be limited relative to safekeeping; there should be mandatory deductibles except for losses caused by burglary, robbery, holdup and mail theft; there should be "all risk" valuable papers protection; and there should be overdraft coverage, with credit union directors being required to approve resolutions prohibiting overdrafts. Most of these recommendations were incorporated into the coverage provided under a new contract with Co-operative Insurance Services Ltd. (CIS). Blanket liability coverage of up to $1 million per occurrence was also introduced in 1974.

Also in 1974, the Board began a policy of tendering for blanket bond and burglary insurance for a one-year period every three years. The premium costs would be negotiated with the designated carrier annually and, if agreement was not reached, the Board had the option of inviting tenders on any anniversary date of the agreement.

In 1977, when the three-year policy expired, the contract with CIS was extended. At the same time, the Board began an in-depth review of blanket

Paul Dotch, director of operations of the Mutual Aid Board from 1978 to 1982.

bond and burglary coverage in anticipation of the credit union system providing its own coverage. Under this program, credit unions would be responsible for deductibility (then 10 per cent of each loss), with the Board's bond program responsible for the balance of the loss. The Board would tender for re-insurance on losses of over $50,000. CIS could be contracted to administer the program for a percentage of premium income. The Act revisions in 1977 gave the Board the power to assess premiums to cover the cost of insurance programs and a separate insurance assessment fund was set up in its books.

In 1980, when the coverage was next renegotiated, there had been a noticeable shift in the types of losses. Until the mid-1970s, external losses such as burglary, robbery and forgery had predominated. After that there were more internal losses, mostly under the faithful performance category. Many of the faithful performance losses were the result of unauthorized loans, and the danger of losses in this area was causing fear among credit union employees who felt [illegible] were being jeopardized. There was a feeling that better auditing and monitoring, and clearer policies and procedures were needed. The deductible on fidelity and faithful performance claims was increased from $10,000 to $50,000 in an attempt to improve the situation.

Meanwhile, the two leading credit union bond carriers in Canada, CUMIS and The Co-operators (formed after a merger involving CIS), announced that they would introduce a common bonding program in 1981. They claimed that their loss ratios had increased significantly in the previous five years despite investments in risk management programs. Combined premiums were $11.2 million, while claims totalled $13.5 million for the two carriers in 1976-1980. Sixty per cent of all claims were in the faithful performance category. They announced that faithful performance coverage would become optional, and the premiums for that coverage were increased sharply.[18]

As a result of the increased cost of coverage and the continuing doubts regarding its value, the Mutual Aid Board decided in 1981 to discontinue mandatory faithful performance coverage. It opted to commit some resources to loss prevention at the credit union level and to continue to build the Fund to provide additional "self assurance".

The fact that there continued to be problems, including some large loan losses, in the credit union system, only served to emphasize the continuing need for a stronger and more effective Mutual Aid Board. A great deal of work was done during the 1970s to revise and improve legislation concerning the Board; clearly determine the role of the Board in relation to Central and the government; build up the size of the Fund; and introduce policies and programs to deal with existing problems and head off potential problems. The groundwork was well laid, and by the end of the decade, the Board and the Fund were in a position to be more effective than ever in protecting members' deposits.

Footnotes

Christine Purden, *Agents for Change*, p. 56-57.

See Saskatchewan Wheat Pool, *The Carter Royal Commission and Canadian Taxation 1967*. Regina: Saskatchewan Wheat Pool, 1967, p. 43-44; and CCH Canadian Ltd. *Analysis of the White Paper on Tax Reform*. Don Mills, Ont.: CCH Canadian Ltd., 1969.

Like other corporations filing tax returns, credit unions charge as an expense costs of doing business. Interest and rebates are standard deductions for all financial institutions. Dividends on shares are deducted by credit unions, since effectively the shares are a form of savings and the dividends are tantamount to interest. In addition, credit unions are subject to a special tax rate of 25 per cent until they have achieved a certain level of what is, in effect, a tax surplus account equal to five per cent of shares and deposits. The underlying intent is that credit unions should have the ability to achieve, at a low rate of tax, a surplus account level somewhat similar to that which was achieved by the chartered banks prior to their being effectively taxed.

Mutual Aid Board, *Annual Report*, 1975.

[5] President's report to the directors, Credit Union League of Saskatchewan, September 6, 1949

[6] Baldur Johnson, Audit Report to Saskatchewan Co-operative Credit Society 1969

Mutual Aid Board, *Annual Report* 1971

[8] Motion adopted by Mutual Aid Board, July 16 1976

[9] *FDIC: Symbol of Confidence* (Washington: Federal Deposit Insurance Corporation, 1980)

[10] Mutual Aid Board meeting minutes, June 27 1975

Memo from Dale Hillme to Norm Bromberger July 17 1974.

[12] Mutual Aid Board, *Annual Report*, 1975

See Richard Eckert, *Credit Union Equity and Reserves* (Regina, Saskatchewan Co-operative Credit Society Ltd. November 1977), p. 1 13 and *Credit Union Way*, October 25, 1978.

[14] Mutual Aid Board investment report, October 31 1982.

[15] Secretary's report to Mutual Aid Board, December 1972.

[16] Mutual Aid Board *Annual Report*, 1974.

Mutual Aid Board *Annual Report*, 1978.

[18] *Credit Union Way*, March [illegible]

CHAPTER SIX

A New Sense of Direction

Without question, a major watershed in the history of the Mutual Aid Board occurred in 1977, the 25th anniversary of the passage of amendments to the Credit Union Act enabling the Fund to be set up. The significant event in 1977 was again the passage of amendments to the Credit Union Act. The amendments clearly set out the new expanded responsibilities of the Board and enabled it to establish itself as a much more important factor in the future operations of the credit union system. In a sense the amendments in 1977 marked the culmination of a quarter century of efforts by credit union leaders to develop the organizational structures and relationships, as well as the rehabilitative and preventive programs that would best serve the needs of the credit union system in Saskatchewan.

New structure

The actual work of revising the legislation as it applied to the Fund was begun in 1974, at a time when the Mutual Aid Board was in the middle of a major effort to set down clear policies in areas such as supervision and amalgamation, clarify its role in relationship to both the government and Central, negotiate an agreement with the CDIC as lender of last resort, and determine the implications of changes in the Income Tax Act.

It had become clear to the Board by 1974 that the Credit Union Act, as rewritten in 1972, did not go far enough in defining the role and powers of the Board. In May, 1974, the Board initiated the task of reviewing and rewriting the sections of the Act dealing with the Fund. While it took almost three years for the recommended amendments to be passed into law, there

The men seated at the table were members of the Credit Union Deposit Guarantee Corporation/Mutual Aid Board in 1983. They are (left to right): Norm Brandberger, chief executive officer of Credit Union Central of Saskatchewan; Harley Meiklejohn, executive director of the investment and financial services branch in the Saskatchewan Department of Finance; Vic Krepp, general manager of Assiniboia Savings and Credit Union and chairman of the Mutual Aid Board; Les Tendler, general manager of Sherwood Credit Union and president of Credit Union Central of Saskatchewan; and Bill Reader, deputy minister in the Department of Co-operation and Co-operative Development. Standing are: Ed Cunningham (left), director of the Deposit Guarantee Corporation, and Peter Wouters, Central's vice president for Mutual Aid Board/Planning and Development, and secretary of the Mutual Aid Board.

was general agreement within the credit union system in the mid-1970s on the shape that the Mutual Aid Board should take. The most important element in the amendments was that, for the first time, it was clearly stated that there was an unlimited guarantee of all shares and deposits in credit unions. While it had, no doubt, always been understood that the Board provided such a guarantee, it was now written into the law. The debate over deposit insurance, which had been going on for nearly a decade, played a part in the decision to have the deposit guarantee stated explicitly in the legislation.

In order to support its full guarantee, the Board was given wider powers in prescribing standards of sound business and financial practices, inspection, supervision and administration of credit unions. The emphasis on loss prevention was restated in the amendments; in fact, it was now quite clear that prevention was to become the primary role of the Board. To

further strengthen the guarantee, the Board was given the power to borrow money from the Canada Deposit Insurance Corporation which had been designated as a lender of last resort under the agreement negotiated previous to the passage of the amendments.

The amendments also stated more clearly how the Mutual Aid Board was to be structured. The 1972 Act had simply stated that three members of the Board were to be nominated by the board of directors of the Credit Society. The 1977 amendments retained the five-member Board, with two members to be appointed by Central's board. One of the two was to be a director of Central. The third credit union system representative on the Board was to be the general manager or his nominee. Hitherto, Central's general manager had served as secretary-treasurer of the Board. This change would permit the most knowledgeable officer in the credit union system to play a direct and active role in the decision-making of the Board.

The question of the two government appointees to the Board was also clarified. The 1972 Act had provided for appointment by the government of two Board members who were not nominated by the board of the Credit Society. In fact, during the period from 1972 to 1977, there was never more than one government official on the Board. After Al Snell retired in 1973, he was replaced by his successors in the Credit Union Branch of the Department of Co-operation and Co-operative Development. The second non-nominated government appointee was always someone from the credit union system.

The 1977 amendments, however, made it clear that, in addition to the three Board members from the credit union system, one should be the deputy minister of co-operation and co-operative development or his nominee, and the other should be the deputy minister of finance or his nominee. The addition of the deputy minister of co-operation was useful since, as registrar of credit unions, he was required to authorize Board actions in a number of areas. By sitting on the Board, he would have more direct, first-hand knowledge of its policies and programs. Representation from the Department of Finance was also seen as being beneficial in that the "outside opinion" of someone with experience in financial management and knowledge of government financial policies were of value to Board deliberations.

The amendments helped to clarify the respective roles of the Board, the Department of Co-operation and Central. The Board would continue to emphasize prevention, with monitoring of credit unions as its primary function. The Department was responsible for public protection and administration of the Credit Union Act. It would carry out inspections at the request of the Board or as a result of problems identified in the Board's monitoring. Central would continue with its development programs and services.

A management team

The increased powers and more active role of the Mutual Aid Board meant that it would be needing its own management personnel. The existing arrangement whereby Central provided management to the Board on a contract basis was continued, but Central's management structure was reorganized in 1978 to accommodate the expanded role of Board functions. A separate Mutual Aid Board division was set up in Central and John Barr, who had been doing a great deal of work for the Board during the previous decade, was appointed manager. Paul Dosch, who had also been active in Mutual Aid Board work for several years, continued as director of operations. For the first time, the Board had its own management team.

For several years after these appointments, Central's district program (later district development) managers carried out operational duties for the Board under the direction of Barr and Dosch. While this arrangement worked well in most respects, one problem encountered was some confusion of the roles of district managers in the minds of credit union management. After Barr retired in 1982, there was a further reorganization of Central's management. The Mutual Aid Board's management team, under its new director Ed Cunningham, was enlarged and more Board functions were transferred to it. The district development department could then concen-

The Deposit Guarantee Corporation (Mutual Aid Board) management team in 1983 consisted of (left to right): Greg Wallace, loss prevention manager; Doug Glessing, financial analyst; Gail Dahl, risk management supervisor; and Ed Cunningham, director.

trate its efforts on development priorities. Co-ordination of the various interrelated functions was achieved through the appointment of Peter Wouters as vice-president in charge of Mutual Aid Board/Planning and Development.

Further amendments to the Credit Union Act were passed in 1978, increasing the responsibilities of the Board in the areas of capital expenditures and borrowing by credit unions and loans to credit union members. Also, approvals of incorporations, amalgamations, and dissolutions, the granting of indulgences, and the approval of credit union audits by the registrar were done in consultation with the Board.

While these amendments were being passed to help the Board carry out the role that had been defined for it, there was also a need for extensive revisions to credit union regulations. Many parts had not been changed since the original Credit Union Act had been passed in 1937. Meanwhile, the credit union system had grown enormously and matured. A far greater level of self-regulation was possible than in the early years. John Barr and other representatives of the Board played an active part in the Act rewrite task force beginning in 1978. By 1981, revision of the Standard Bylaws was completed, and the task of revising and rewriting the Act was nearing completion in 1983. Mutual Aid Board management continued to play a leading role in this work.

The theme of increased self-regulation had implications for the Board as well as for the government. It meant that the Board would step up its monitoring program, but refrain from direct intervention in credit unions unless there was no other alternative. This had always been the approach used by John Barr, but now, even with its increased capacity to intervene, the Board continued to affirm the principle of self-regulation and work toward it in the revision of legislation.

New strategies and policies

In 1977, Central staff was assigned, on behalf of the Mutual Aid Board, to develop aims, objectives, strategies and policies for the operation of the new Board. A year later, a list of proposed functions for the Board included the following: establishment of internal audit standards; emergency examinations with the district program manager, particularly if an operational survey was required; review of all audit and inspection reports; development of an early warning system; work with Department of Co-operation inspectors; loss prevention, through the establishment of equipment standards and operation of the bonding program; Central Credit Committee and business loan follow-up; and responsibility for development and implementation of an overdraft model.

In a letter to credit unions in 1979, John Barr said that the review of aims, objectives and strategies had been completed. The revisions reflected the self regulatory effect of recent legislative amendments, he added. The

Board would continue to focus on prevention, while credit unions would be responsible for their own operating results. The early warning system would have a high priority. The top priorities for the Board, according to Barr, would be the development of good lines of communication with credit unions and with other stabilization funds. The amount of self-regulation in a credit union would be determined by the credit union's ability to operate as a viable unit.

Supervision

The supervision policy of the Mutual Aid Board was refined under the direction of John Barr as well. The Board was authorized by the Credit Union Act to place credit unions under supervision under certain circumstances, for example, when credit unions failed to develop adequate reserves or adequate plans and policies, or failed to operate in a sound and business-like manner.

However, the policy was to place a credit union under supervision only if moral suasion failed to rehabilitate a credit union or resolve its problems. The first approach would be for the Mutual Aid Board management to discuss the situation with the credit union's leaders, gain agreement on identifying the key problems, evaluate union plans, and suggest a developmental approach to resolve problems. If that was not accepted by the credit union, or if its financial performance continued to be less than adequate, controls would be recommended. Where a potential claim on the Fund was discovered through an examination of the key risk areas, immediate action would be initiated by the Board management to protect the Fund and prevent losses. No formal supervision order could be issued without the concurrence of the registrar.

The Board would follow a particular procedure in these cases. MAB management or a district program manager would meet with the board and management of the credit union to explain supervision. The Board would advise the credit union and the registrar that the credit union was being placed under supervision. The credit union would then have 15 days to appeal the notice.

The Mutual Aid Board could request a government inspection of all credit unions under supervision. The credit union's board would continue to function with all its rights and responsibilities, but the manager would receive direction and assistance from the Mutual Aid Board. During the 1970s, responsibility for supervision cases rested with the district program managers. However, with the reorganization of Central in 1982, a loss prevention manager, Greg Wallace, was appointed as part of the MAB management team with responsibility for dealing with credit unions under supervision. Where necessary, the Board could require a credit union to engage Central through a management agreement.

There were two phases to supervision. In the short run, attention was focussed on revising policies, rates, services, and procedures. There would also be a long-term development program involving long-range planning, board/management development, and reserve building.

The progress of the credit union would be monitored closely, with management being required to prepare accurate reports for both the credit union board and the Mutual Aid Board. These would include financial and statistical reports, overdraft reports and management reports. The Board would also determine when a credit union could be taken off supervision. Supervision would be discontinued when the conditions that caused supervision disappeared; for example, when operating losses and past losses were repaid.

One way in which a credit union could be placed under supervision was if it requested permission from the Mutual Aid Board to reduce its reserve allocations below the required level or to capitalize expenses. As mentioned in Chapter 5, the Indulgence Committee (re-named the Performance Review Committee in 1982) was set up by the Board in the early 1970s to review these applications. In the period from 1977 to 1980, between 14 and 16 applications for indulgence were approved each year.[2] Following each approval, the credit union was informed that a contingent liability to the Mutual Aid Board had been created and the credit union would be subject to supervision. These credit unions were also placed on the Board's "watch list".

The total level of contingent liabilities was growing. It rose from $736,000 in 1979 to nearly $1 million in 1980 and $2.6 million in 1981.[3] Statutory reserve deficiencies and capitalized deficits accounted for the largest proportions. The Board repeatedly urged credit unions to build reserves over and above the statutory requirements to provide a cushion for unexpected contingencies. One report showed that 1982 was a record year for undivided surpluses, but there was a trend to increased delinquency and loss exposure on loans. It was suggested that the concept of a doubtful account reserve be incorporated into the 1983 Credit Union Act rewrite.[4]

Loan monitoring and assistance

Problems continued to crop up as a result of the lending practices of credit unions, particularly in the area of commercial lending. According to one estimate in 1979, 90 per cent of all bad debt write-offs in Saskatchewan credit unions were for business loans.[5] A report to the Mutual Aid Board expressed concern about the inability of credit unions to analyze business loans properly or monitor them adequately.

While both Central and the Mutual Aid Board were encouraging credit unions to get into commercial lending, they realized that credit unions would need help to reduce the risk and realize the profits. One area of

District meetings have long been a vital part of the information sharing process in the credit union system. Speaking at this meeting in Abbotsford in 1977 is Vic Koop. He was elected chairman of the Mutual Aid Board in 1979.

assistance was in training and policy development. In 1979, Central hired an experienced commercial loan analyst, Ron Stroich; it prepared a loan policy statement for recommendation to credit unions, it drafted standardized application forms, and it held a series of workshops on business loans.

In 1980, Central held more commercial loan seminars, and introduced a commercial loans policy and a new format for analysis of loan applications. In 1981 seminars were held on the subject of insolvency and bankruptcy and, in 1982, Central reorganized its lending services and introduced a commercial loan consulting service.

Another method of improving the quality of commercial loans was through the system of loan processing and loan approvals begun by Central and the Mutual Aid Board in the early 1970s. The Board's Central Credit Committee was responsible for approving, declining or amending loans submitted to it, on the basis of information provided by the credit union. The committee would evaluate loans and advise the Board on credit union lending policies. Central's loan services department served as a resource to the Board, processing loans submitted to the Central Committee and

reviewing loan applications to ensure that sufficient information was available.

One requirement of the 1972 legislation was that all business loans and loans to credit union officers, directors or employees in excess of $15,000 had to be submitted to the Central Committee for approval. The only exceptions were for certain larger credit unions with healthy levels of reserves. By 1977, there was a growing feeling in credit unions that the $15,000 limit was too low, and credit unions were having difficulty competing in the loan field because of the length of time needed to approve all but the smallest business loans.

As a result, in 1978, the Standard Bylaws were amended to remove this limitation. Credit unions could apply to the Mutual Aid Board for "approved lender status" and the onus was on them to suggest an appropriate new lending limit. Policy guidelines were established to determine what the limits should be. For example, delinquency had to be less than three per cent of total loans, loss exposure less than 25 per cent of reserves, and reserves had to exceed loss exposure by more than one per cent of total loans. The requirements for total exemption remained the same, and the performances of credit unions were reviewed annually.

Credit unions responded to the change favorably and applied for very realistic limits, based on their local situations. By 1981, approved lender status was granted to 33 credit unions. When the Standard Bylaws were rewritten in 1981, the Mutual Aid Board retained the discretion to determine limits on business and other loans made without Central Committee approval. The limits on unsecured loans and loans by management without credit committee approval were also increased to allow credit unions to be more competitive.

To speed the processing of loans submitted to the Mutual Aid Board for approval, powers of approval were divided according to the size of the loans. The smallest loans submitted could be approved by Central's director of lending services or a designated department head. Larger loans were approved by a credit committee appointed by Central management, and still larger loans were approved by a credit committee appointed by Central's board. Loans of over $15 million had to be approved by Central's board or executive. The limits at each of these levels have been increased several times since 1977.[6]

The number of loans processed through the Central Committee each year grew rapidly during the 1970s, passing the 2,000 mark in 1978. Since then, it has remained relatively constant, but the approval rates have improved, while the number of loans declined or returned for more information has dropped. That would seem to indicate an improvement in the documentation and handling of business loan applications by credit unions.

Credit union audits

By the late 1970s, monitoring had become a central function of the Mutual Aid Board. For many years, one of the most important means of monitoring the performance of credit unions was the audit. In the early years of the movement, the Department of Co-operation and Co-operative Development audited all credit unions. By the 1950s, most of the larger credit unions were using audit firms to do this work. The quality of auditing services provided by firms varied considerably and the cost of auditing was an additional expense for credit unions. As a result, the Credit Union League began to consider the possibility of establishing its own audit service. A recommendation to that effect was approved by the League board in 1955, but no action was taken. The idea was considered again several times during the 1950s and 1960s, but a League audit service was never established.

In 1965, the conclusion of a study conducted by the League was that it should arrange for a standard audit with a number of auditing firms. In 1969, a report by Baldur Johnson, then secretary of the newly amalgamated Credit Society, mentioned a number of alternatives that had been considered, including a League audit department, a contract arrangement with an audit firm, an audit service provided by the Department of Co-operation, and a co-operative audit service run jointly with other co-operatives. All of these options were dropped.

One of the recommendations of Johnson's report was that the Mutual Aid Board be empowered to require a special audit or survey of any credit union where it considered such action to be necessary. The report also suggested the possibility that the Board assume some responsibilities from the registrar.

In 1970, the Mutual Aid Board approved a motion requiring credit unions receiving advances of funds to furnish any details required to Board representatives. Credit Society staff were asked to represent the Board in the field, and auditors and Department inspectors were asked by the Board to look for any violations of terms and conditions among credit unions receiving Mutual Aid Board assistance.

There was also continuing concern that audits, particularly loan audits, were not detailed enough. A meeting of representatives of the Board, the Credit Society, the Department and auditors was held in 1971. Credit unions were upset about having to pay both audit and inspection fees. The Department was talking about reducing its inspections and relying on auditors' reports, limiting itself to examining weak credit unions. Meanwhile, auditors said a full audit of loans would increase costs substantially. There was some feeling that the new legislation setting up the Central Credit Committee would introduce some needed controls over lending activities.

Later in 1971, the Role Committee reviewed a schedule of minimum audit requirements and suggested a check list for auditors. One audit firm in Swift Current was already making inspections of loans. In 1973, it was agreed that the Department of Co-operation should develop minimum audit standards, in consultation with the Institute of Chartered Accountants and representatives of the Mutual Aid Board and the Credit Society. Already, one of the problems being considered was the tracing of the audit trail where computerized accounting was being used.

In 1977, the Mutual Aid Board sponsored a meeting attended by representatives of 16 audit firms. They reviewed rules and outlined controls on Central's automation system. Mutual Aid Board staff were asked to develop a proposal to maintain high standards for credit union audits and produce a list of approved auditors.

The total auditing process was composed of five parts, as Paul Dosch described it in 1978. There was the audit, which was a balance sheet and operating statement verification carried out by an accounting firm. The Mutual Aid Board would carry out an examination of a credit union's internal operations, policies, margins, liquidity and markets. An inspection, at the request of the Board, would provide a follow-up on special problems, loans, or loan exposure. Internal audits would involve an examination of operations, procedures and internal controls by credit unions. In addition, the government would examine credit unions to ensure compliance with legislation and fulfil the government's role as protector of the public interest.

In 1978, an audit task force, composed of auditors and representatives of the credit union system, was established, and it continued to meet annually to review relations between credit unions, auditors, the Board, and the Department. In 1978 it studied audit guidelines, auditors' reports, evaluation of credit union outputs, and control procedures. In following years, it also studied commercial loans processing, financial reporting of credit unions, data processing systems controls, the allowance for doubtful accounts, the early warning system, fidelity bonding and other matters related to strengthening the auditing process.

In 1979, Mutual Aid Board manager John Barr and Ed Gebert, a former chairman of the Board, were appointed to a national committee of the Canadian Institute of Chartered Accountants to research credit union financial reporting and the auditing of credit unions. A regional advisory group to the CICA was also set up and was assisted by the Mutual Aid Board's audit task force.

In 1980, Central, in conjunction with the Board, established an internal audit system with the aim of stabilizing costs and improving audits in the credit union system. The internal audit department, which was expanded in 1981, concentrated on electronic data processing (EDP) audit, developing

internal audit formats for credit unions, managing access to audit software for auditors and educating them in its use, and conducting special audits requested by the Board.

The expanded monitoring program

The Mutual Aid Board had increased its involvement in the auditing process in 1977, when it was given its broadened mandate as a deposit guarantee fund. Auditing became one aspect of the new and more comprehensive monitoring program initiated in 1977. Known as the early warning system, the program was patterned to some extent on the system developed by the FDIC. It included the annual audits, internal management controls by credit unions, inspections by the Department of Co-operation, and two new programs, the integrated monitoring system, and the probability of distress model.

The integrated monitoring system (IMS) was developed by the Board, Central and the Department of Co-operation statistics branch as an improved alternative to the reporting system operated by the Department. It involved the submission by credit unions of monthly and quarterly reports to Central. Central processed the information and returned the composite results to credit unions.

The monthly reports included selected balance sheet figures and cash flow totals, and the statistics from Central covered cash flows, interest rates and liquidity. The quarterly reports were complete three-month financial reports and were used to generate in-depth information on key performance areas: reserve ratios, surplus distribution potential, loan exposure, and expense-revenue ratios. The performance of a credit union was compared with aggregate ratios of similar sized credit unions and the combined ratios of all reporting credit unions.

The IMS began as a pilot project and, by the end of 1977, 115 credit unions were on the system. The number had increased to 185 credit unions with 90 per cent of all assets by early 1979 and, by the end of the year, all but six small credit unions were reporting regularly.[8] One of the incentives for them to join was agreement by the Department of Co-operation to accept IMS data as meeting the legal requirements for reporting to government and to Statistics Canada, thus eliminating a great deal of time-consuming paperwork for credit unions. In addition, the Department discontinued the "loans by purpose" reports, which were lengthy but of no use to credit unions. Responsibility for development of the program was in the hands of Sheila Ebbels (formerly Ottenbreit), who became financial monitoring officer for the Board in 1978. In 1981 Doug Glessing took over management of the monitoring system.

In 1980, work was begun on revising the IMS so it could provide credit unions with the additional analytical and comparative information they were requesting. The plan was to replace the IMS software with new

programs to be run on the computers of The Co-operators and Central. At the same time, consultants were hired to study the feasibility of developing a common EDP general ledger data base for credit unions. The revised IMS program would be able to interface with the new general ledger system.

One of the problems with the original IMS software was that it was not possible to store data or modify programs. The revised software system, which became operational in 1982, provided active storage of data for three years, with back-up for an additional seven years. The new system could operate on-line, accepting data input by terminal or by interface to the credit union on-line general ledger system. The registrar agreed to discontinue the monthly IMS reports, so more analysis could be done on the quarterly reports.

While data collection from automated credit unions was greatly enhanced with the new system, reports from "off-line" credit unions still caused some delays. Nevertheless, the aim was to reduce the turnaround time from six weeks to three weeks. An additional advantage of the new system was that the data base was accessible to a number of system software packages, such as Financial Forecasting and Modelling, Culprit, and Statistical Analysis, making it possible to develop a management information system capable of meeting many of the expressed needs of credit unions.

The Mutual Aid Board used the statistics from the IMS to prepare a quarterly risk ranking of all credit unions based on the probability of distress model. Certain of these credit unions would be placed on the Board's "watch list". For example, in the period between 1979 and 1982, the number of credit unions in the "potential payoff" category rose from two to four. The number of credit unions in the "serious problem" category fluctuated between four and ten, while there were anywhere from 44 to 55 credit unions in the "other problem" category. Credit unions with operating deficits or liquidity deficiencies were also identified. Those in the "potential payoff" category were usually placed under supervision.[4]

Operational surveys

If a credit union finds itself in financial difficulties, it has the primary responsibility for resolving its problems. However, financial assistance is available from the Mutual Aid Board when serious problems exist, and technical assistance is available in a variety of forms from Central.

The operational survey was one device developed by the field staff of the League in the 1960s to identify and analyze problems and suggest strategies for solving them. These surveys continued to be used frequently during the 1980s, although they were intended increasingly as preventive and planning tools rather than problem-solving and rehabilitation aids.

Operational surveys are conducted at the request of credit unions. They are carried out by a team of four to six persons from Central, co-ordinated

by a district development officer. Personnel from loan services, data processing, and human resources may be included on the team. Before beginning the survey, the district development manager meets the board and management of the credit union to determine the reasons for the survey, ensure full understanding of the program, and establish the credit union priorities and survey objectives. Commitment of the board is an important factor.

The survey itself is a thorough fact-finding examination of all the credit union's operations, measuring the actual situation against recognized standards. The team gathers its information by studying the organizational structure of the credit union and how effectively it is functioning, its procurement and use of capital, its growth and development, and its sales and marketing programs. A comprehensive report is written and submitted to the credit union. As many as 12 surveys have been conducted in a year and Central personnel have co-operated with other provincial Centrals in carrying out surveys.

The case of Unity Credit Union

The Mutual Aid Board has made use of operational surveys as part of its recovery program for credit unions in difficulties. It has provided assistance to many credit unions, but certain cases stand out because they played an important part in shaping the policies and programs developed by the Board. Arran and St. Gregor were important in that sense in the 1950s. In the 1970s, the experience of the Board in assisting Unity Credit Union played a key role in shaping its future. Again, the story had a happy ending.[10]

The problems began in the early 1960s when the province-wide economic upsurge led to rapid growth in the credit union: assets doubled in just five years. It was a free-wheeling period and controls on the growing volumes of money passing through the credit union tended to be rather lax. For example, not sufficient funds (NSF) cheques were covered by promissory notes. New loans had to be marketed to keep pace with the growing size of deposits, but loans were made without security and delinquent loans were not followed up. So long as the economy remained healthy, the credit union could seemingly continue its "generous" policies and ignore the danger signs.

But a glut of grain began in 1968 and the Saskatchewan economy went into a nose-dive. The roof fell in on Unity Credit Union. The Department of Co-operation had conducted several loan audits and warned of serious problems — one report was 108 pages long. The Mutual Aid Board expressed its concern too, and eventually the credit union's board consented to have an extensive operational survey done.

The survey revealed the extent of the problem. The credit union had loaned out 105 per cent of its assets of about $3 million. Delinquent loans

Leon Breton, hired as manager of Unity Credit Union in 1970, was instrumental in guiding the credit union out of its financial difficulties.

totalled $1.54 million and there was a possibility that about $750,000 would have to be written off. The reserves amounted to only about $100,000. No loans had been written off to that time.

In 1970, the manager resigned and Leon Breton, who had spent seven years at Lafleche Credit Union, was hired to replace him. One of Breton's first tasks was to identify the most doubtful loans and possible losses on others. Eventually it was agreed that the Mutual Aid Board would provide $500,000 in an interest-free loan to cover potential write-offs.

Half of the loan was made available in 1972 and the remainder the following year. Unity also became the first credit union to be placed under supervision by the Mutual Aid Board. The loan was by far the largest granted by the Board up to that time, but in retrospect a number of people involved at the time felt it was inadequate, making recovery unnecessarily difficult for the credit union. There were also stringent conditions attached to the loan. Dividends were reduced from six to four per cent and kept at that level for about five years. The bulk of earnings from the interest-free loan went into building up reserves. Loans were limited at first to $500, then to $1,000 per member. Later, all loans of over $7,500 had to be submitted to the Board for approval. A rigid collections program was set up, and a five-year period was established for the write-off of bad loans.

Breton was placed in a difficult position in attempting to set the recovery program into motion. The previous manager's overly generous attitude in handling the credit union's funds had won him many friends, so for the first year, Breton admitted later, he may have been the most unpopular man in Unity. The restrictions on loans led to a loss of credit union members, and several of the credit union staff resigned because they did not agree with the tough policies. There were several bankruptcies involving court cases at which Breton had to testify.

Breton persevered. Although at one point the Mutual Aid Board

criticized the credit union for not pursuing outstanding loans actively enough; he chose to counsel borrowers rather than hound them. He set up repayment plans rather than going after repossessions, and many of the delinquent accounts were settled fully. Also, as a very community-minded person, Breton soon became involved in local service clubs and minor sports, and eventually became a "pillar of the community."

His approach paid off. In 1974, credit union assets jumped by 33 per cent to $7.5 million. Loss exposure was down to 17 per cent of outstanding loans, and the credit union was able to place $45,000 in statutory reserves, leaving $50,000 as undivided surplus. The credit union requested permission from the Board to pay a 10 per cent patronage refund and place $30,000 into general reserves.

It turned out that only $375,000 in bad loans had to be written off and by 1976 reserves were large enough to cover this amount. Repayment of the Mutual Aid Board loan was begun that year, and it was completed ahead of schedule in 1978. Unity Credit Union was formally removed from supervision early in 1978. Under the excellent management of Breton and with the active support of its board, the credit union continued to grow and prosper and, by the time he resigned as manager in 1982, assets had reached $28 million and loss exposure was less than one half of one per cent. In spite of some hard feelings at the peak of the credit union's crisis, most members remained loyal and supportive.

Unity [illegible] fully recovered from financial difficulties during the [illegible] with assistance from the Mutual Aid Board.

The Mutual Aid Board learned several lessons from the experience at Unity. Its supervision policies have become more flexible, with interest-free loans being large enough to allow a more rapid recovery of reserves, and operational controls being less restrictive. As [illegible] pointed out several years after the problem had been resolved, the Board did all the right things, but it was too tough at the beginning.

In addition, the Board has shifted its emphasis to monitoring and prevention in an attempt to head off problems before they reach the crisis level. Even so, some financial losses, such as those at University Credit Union in the early 1980s, will probably always occur. Even the most sophisticated monitoring system depends on the commitment and integrity of the people feeding reports into it. In a democratic structure such as a credit union, the primary responsibility of the management is to the board and members. If, for whatever reasons, there are failures at the management level, the Mutual Aid Board can do no more than prepare itself to correct any problems that develop, while protecting the deposits of the members. In its first 30 years, the Board met every challenge that arose.

New credit union development

While ensuring the continued financial health of existing credit unions and guaranteeing deposits of their members have been the primary objectives of the Mutual Aid Board, the issue of new credit union development has been a concern as well. The vast majority of credit unions were established in Saskatchewan during the 1940s and 1950s; after the mid-1960s, the number of credit unions in the province began to decline. The number of dissolutions and amalgamations grew, and the Mutual Aid Board became involved in many of these cases.

Growth of the credit union system accelerated during the late 1960s and 1970s, but it was primarily through the expansion of the membership bases of existing credit unions rather than the establishment of new credit unions. Many of the amalgamated credit unions became branches of other credit unions. In addition, numerous new branches were established, and the Board became involved in providing financial support for branch development as well.

Some new credit unions continued to be formed, but they tended to be "special cases" of various types. For example, new caisses populaires were established to serve the French-speaking populations in Saskatoon and Regina. In addition, there was discussion in Regina about the possible formation of a credit union for professionals such as doctors and lawyers, similar to the Professional Financial Savings and Credit Union established in Winnipeg in 1980.

Legislation regarding the creation of new credit unions had not been altered significantly since 1937: a credit union could be established by as few as 10 members and have assets of as little as $50. However, there was a

growing feeling during the 1970s that, if a new credit union lost money, it would have to be bailed out by the credit union system. Therefore, other credit unions, through the Mutual Aid Board, should have a say in setting conditions under which new credit unions were set up.

At Central's 1980 annual meeting, delegates approved a resolution calling for an amendment to the Credit Union Act to provide that the Mutual Aid Board as well as the registrar must approve any application for the incorporation of a credit union. That amendment was not made, but in 1978 the Department of Co-operation had adopted the policy of consulting the Board before incorporating any credit union.

The Board, meanwhile, had established a set of criteria for ensuring financial viability in new credit unions. For example, there had to be a minimum potential membership of 2,000 with a minimum short range membership of 500, the short-term break-even point was assets of $2 million (later revised upwards), there had to be a need for services; a degree of understanding about credit unions and financial services was required prior to incorporation; and local need and initiative had to be demonstrated.

Anti-Poverty Credit Union

However, while the continued financial stability of the system is essential to its survival, there have always been people within the credit union system who have maintained that there is a special social responsibility to assist financially disadvantaged groups. This led to several interesting attempts to establish new special-purpose credit unions.

One such effort led to the formation of a "store-front" operation known as the Anti-Poverty Credit Union in Saskatoon in 1973.[11] It was formed with seed money of $1,000 contributed by Saskatoon Credit Union, and some funds on deposit from a local church. The credit union was intended to provide a counselling service on money management and budgeting, and offer low-interest loans to applicants with no collateral and, most often, no prior credit rating. The rationale behind this venture was that many single parents with low family incomes and people on welfare were forced to borrow money at high rates of interest from finance companies or loan sharks. The new credit union would provide an attractive alternative for these people.

The experiment lasted for five years, during which counselling services and loans were provided for nearly 1,000 people. But the credit union lost money steadily and, in 1978, 60 per cent of its loans were in arrears. The credit union was dissolved in that year, with deposits and certain loans being taken over by St. Mary's Credit Union in Saskatoon. The losses, amounting to about $13,500, were absorbed by the Mutual Aid Board.

According to the credit union's manager, Doreen Russell, one reason for the failure of the experiment was the stigma of being a member of the credit union. Another argument put forward by a supporter of the concept

Marie F[illegible]h [illegible] appointed secretary-treasurer of the Anti-Poverty Credit Union in Saskatoon [illegible] accepts the certificate of incorporation from Ted Profontaine, one of the founders of the credit union

was that the credit union had always been too short of capital to provide adequate help for low income people. Total assets rarely exceeded $50 000; loans were limited to a maximum of $500 and, in fact were rarely more than $200. Members were unable to finance basic purchases such as furniture, appliances or cars.

The Mutual Aid Board, in recommending dissolution of Anti-Poverty Credit Union, took the position that income tax counselling and loan services for low income groups could be provided more effectively through special programs of existing, well-established credit unions, as was being done in Regina and Prince Albert. There, credit unions had developed contractual relationships with local self help and welfare rights organizations to provide many of the same services as those carried out by the Anti-Poverty Credit Union.

Northern credit union development

Another dilemma faced by the system is related to the problems of developing credit union services in northern Saskatchewan.[illegible] The problems are related to the nature of the northern economy and demography. The northern population is small and scattered over a large area, with few

settlements of any significant size. In addition, the northern population, both native and non-native, tends to be highly transient. Most salaried income is provided either by government services or mining ventures, both of which are rather unstable, since they are subject to changes in government policies and fluctuations in natural resource markets. In addition, most of the earnings from mining operations do not remain in the north. The other major source of income in the north is welfare payments from governments, and there is not a tradition of saving money among native populations.

Since development of new credit unions is normally associated with local initiative, a stable local population and economy, and an ability to generate a local capital base sufficiently large to support a viable operation, the prospects for credit union development in northern Saskatchewan are not promising. Indeed, the situation across northern Canada is similar. Credit union movements in Yukon and the Northwest Territories failed and the Saskatchewan system absorbed part of the losses suffered there. In northern Saskatchewan, credit unions started in Buffalo Narrows and Cumberland House during the 1960s never became financially healthy and were dissolved in the mid-1970s, with the Mutual Aid Board covering their losses.

Prince Albert Credit Union opened a branch in LaRonge, the chief administrative centre in northern Saskatchewan, in 1974. While assets at the branch had grown to $12 million by 1982, the branch had not shown a profit.[11] Meanwhile, chartered banks showed no interest in subsidizing banking operations in the north. In 1982, there were only three bank branches in all of northern Saskatchewan, and one of them was in the process of closing.

However, although there did not appear to be much likelihood of northern credit unions ever becoming viable operations, there has always been a certain amount of political and social pressure on the credit union system to initiate financial services for northerners. In the northwestern area, many people would travel hundreds of miles south to Meadow Lake to cash cheques or borrow money. In other areas, people had no alternative but to make use of very limited and costly financial services at Hudson's Bay Company posts. There was a desire for full-service credit unions, not just savings and loan services.

In 1979, Central joined the federal and provincial governments in setting up a steering committee to consider strategies for the development of northern credit unions. Because any new credit unions would become a contingent liability for the Mutual Aid Board, it was to be involved in any decision making as well.

Since LaRonge, Uranium City and Buffalo Narrows were the trade and administrative centres of the North, it was felt that full service financial institutions would only be possible in these communities in the foreseeable

The old Buffalo Narrows Credit Union during the 1960s.

future, while some limited services might be provided in several smaller centres.

Buffalo Narrows was the only one of the three larger centres with no on-site financial services, so a proposal was developed in 1979 for the establishment of a new credit union there. It involved the placement of an interest-free deposit of $1.25 million in the credit union for three years by the provincial government's Department of Northern Saskatchewan (DNS). After that, a reduced rate of interest would be paid on the deposit for a 10-year period. The earnings from this deposit would be used to underwrite development costs and allow limited reserves to be built up at the credit union.

The proposal was not acted upon, and negotiations continued between the government and Central regarding other possible alternatives. Further delays to development of the scheme resulted from the election of a new provincial government in 1982 and its subsequent dismantling of much of the Department of Northern Saskatchewan and integration of DNS functions with those of other government departments. DNS had been the most active promoter of the idea of developing special financial services for the north.

Despite the delays, it would be unfair to assume that the proposals have effectively died, or that the credit union system has grown more concerned with "playing it safe" than with introducing credit union services to people who need them. The LaRonge operation is evidence that one credit union has been willing to provide services to the north at a cost to itself. But, given the many complexities of development in the north, any plans to expand services must be carried out carefully.

Theme for the future: self-regulation

After 30 years of operation, the Mutual Aid Board had evolved programs and policies that left it in good shape to carry out its mandate. When the new management team assumed responsibility for Board duties from John Barr and Paul Dosch in 1982, the Board began a series of planning sessions. While this was the first major planning exercise by the Board in some five years, it did not signal the development of any major new thrusts. Essentially, the pattern for future development of the Board and the Fund was established with its restructuring in 1977-78. Its purpose and objectives have remained the same, although strategies continue to be refined and developed. As Peter Wouters described it in 1983, the foundation had been built, and work was progressing on the framing of the structure.

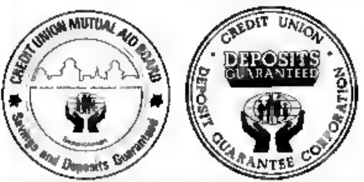
If there was an overall theme to the operations of the Board after 30 years, it was probably summarized in the frequently used term "self-regulation." The term refers in part to the relationship between the credit union system and the government: the system had, over a period of nearly five decades, achieved a size and level of maturity that allowed it to manage its own affairs to a degree that was not possible in the early years. This self-regulating capability was due, in large measure, to the impressive achievements of the Mutual Aid Board in its first 30 years of existence.

But the term also refers to the relationship between the Board and credit unions. In its earlier years, the Board concentrated on problem-solving and rehabilitation of credit unions in financial difficulties. These functions are continued but they threaten to create an increasing drain on the financial and other resources of the entire system. As a result, the Board has, since the 1960s, placed increasing emphasis on preventive measures, and it has been shifting more of the onus for problem-solving to credit unions, in effect passing on increased responsibility for self regulation to them. As deposit guarantor, the Board's primary responsibility is to the credit union member, but the credit union itself is the first line of defence in protecting member's deposits.

Public image

There is another, less easily measured, aspect to deposit protection. Good management and sophisticated internal operational monitoring and control systems go a long way toward ensuring that deposits are safe, but the survival of any deposit taking institution also depends on public confidence and trust. Confidence is difficult to build and it is easily shattered.

To some extent, the concern within the credit union system about acquiring government deposit insurance through the Canada Deposit Insurance Corporation was related to this issue. The deposit insurance itself would not have increased the level of protection; in fact, existing deposit protection provided by the Mutual Aid Board was significantly more


CREDIT UNION MUTUAL AID BOARD
Savings and Deposits Guaranteed
Saskatchewan
CREDIT UNION
DEPOSITS
GUARANTEED
DEPOSIT GUARANTEE CORPORATION

The logo of the Mutual Aid Board (left) and its replacement following the adoption of the name Credit Union Deposit Guarantee Corporation in 1983.

comprehensive. But there was concern that the public would be led to believe that any deposits not covered by CDIC were not safe.

Such concerns were not entirely unfounded. For example, in 1976, a report by the Economic Council of Canada on the Bank Act review recommended uniform federal deposit insurance coverage through CDIC. It went on to claim that all credit unions outside of Quebec had no deposit insurance and that their reserves fell considerably short of providing an adequate substitute for deposit insurance. In British Columbia, which was mentioned specifically by the report, the credit union system braced itself for a possible run on deposits, while at the same time issuing public statements that its reserves were completely adequate. A potential crisis caused by incorrect information was averted, although perhaps the nerves of some harried credit union officials were unnecessarily shattered. There have been other similar incidents.

In Saskatchewan, the Mutual Aid Board has maintained a low public profile, preferring to work behind the scenes to maintain a stable credit union system in which deposits would be safe. But in 1968, when banks and other financial institutions began to advertise their links with CDIC, the Board decided to introduce plaques and decals that could be displayed in credit unions. Those early advertisements included the message, "Member — Mutual Aid Fund — Saskatchewan Credit Unions — Protecting your shares and deposits." This program continued and, particularly after the amendments to the Credit Union Act in 1977, the concept of a full deposit guarantee became a more prominent part of the advertising message. Marketing packages, including television and newspaper advertisements, brochures, counter cards and letters to members, were also introduced.

Another aspect of developing a positive public identity for the role of the Board was the decision to adopt a new name. The issue first came up in

1965, when there was a proposal to adopt the name "Credit Union Stabilization Fund", which would conform with the name being adopted in some other provinces and states. That suggestion was turned down by the Board.

A new proposal in 1982 was based on the public image issue. It was felt that although the term "Mutual Aid" was understood within the credit union system, it meant little to the public. The proposal to adopt the trade name "Credit Union Deposit Guarantee Corporation" was approved by the Board and legislation was amended to permit its use in 1983. While the legal name of the body continued to be "Mutual Aid Board", it was the policy of the Board to make increasing use of the term "Deposit Guarantee" in future.

A national stabilization fund?

To some extent, the desire to promote the deposit guarantee concept in Saskatchewan resulted from concern that negative publicity surrounding credit union systems and other financial institutions in some other provinces might spill over into Saskatchewan, even though the system itself was healthy. Beyond that, however there has always been a recognition of the fact that no provincial credit union system can isolate itself from what is happening elsewhere. A strong argument has long been made for extending the principle of "mutual aid" beyond provincial boundaries.

As early as 1959, Al Snell had suggested that there might be some merit in considering the idea of a national stabilization fund, although the international fund being discussed at the time seemed premature. In subsequent years, financial assistance was provided across provincial boundaries for credit union systems experiencing difficulties in Ontario, Newfoundland, Yukon and the Northwest Territories. Saskatchewan, as one of the healthiest provincial systems, saw some benefits in establishing some formal mechanism for providing such assistance.

In 1973 a committee with representatives from four provinces, including Saskatchewan, was set up by the National Association of Canadian Credit Unions (NACCU) to study the establishment of a national stabilization fund that would essentially provide stabilization in the form of a liquidity pool for provincial centrals.

In 1975 a national stabilization conference was organized by NACCU to discuss the tax issue, and review the financial and legislative structures of provincial funds and their relationship with the Canada Deposit Insurance Corporation. Co-ordination of efforts by individual funds was also discussed.

In 1977 NACCU was amalgamated with the Canadian Co-operative Credit Society (CCCS) and the financial resources of the new organization were greatly expanded to create a national liquidity pool. There were

suggestions that the CCCS had, in effect, become a form of national stabilization fund.

Meanwhile, a national stabilization task force was set up by CCCS to co-ordinate the development of provincial funds on a national basis, and a recommendation was made in 1979 to establish a national stabilization fund to assist in preventing losses due to credit union failure on a national scale.

There was some resistance to the idea of creating a national fund through contributions from provincial funds, and there also proved to be some legal barriers to transferring funds from one province to another. The proposal did not die, but no concrete action had been taken by 1983. Meanwhile, representatives of provincial funds did continue to meet regularly to compare notes and share experiences. Beyond that, the issue of whether or not to establish some form of national stabilization fund is likely to receive renewed attention in the future, particularly if there are new demands on credit union systems across the country for financial assistance to provincial systems that are facing severe difficulties. Even if more provincial stabilization funds were able to negotiate lender of last resort arrangements with CDIC, a consensus may eventually be reached that additional attention should be paid to stabilization and rehabilitation at the national level.

Automation

There are other issues that the Mutual Aid Board may have to come to grips with in the future as well. A number of them are related to the increased automation of the financial industry. For example, computer fraud is a growing problem, but so little is known about it that the magnitude of the problem cannot be determined.

In 1983, the Board had no particular strategy in place to deal with computer fraud, although it was working with Central's data processing department to ensure that certain controls were built into the software. According to the Mutual Aid Board loss prevention manager, Greg Wallace, the major difference with computer fraud is that it can happen more quickly and involve larger sums of money than the more traditional types of fraud. The strategies used to deal with fraud cases would probably remain the same, although the tactics used would have to be updated.

Aside from the danger of larger losses through the abuse of computers to misappropriate funds, automation poses some rather broad questions regarding the future viability of credit unions. For example, is there any future for credit unions that do not become automated and consequently are unable to introduce services such as automated teller machines and debit cards? Beyond that, what will happen when home banking becomes commonplace and it is technically feasible for members to bypass credit unions completely and interact directly with the data base at Central? Home

computers could also add a new dimension to the democratic control system of credit unions, but the important point is that automation could lead to major restructuring of the credit union system.

A continuing need

No matter what changes do take place, however, a deposit guarantee agency will be needed for as long as there is a credit union system. In fact, the role of such an agency is likely to continue to expand in the future. In Saskatchewan, the Mutual Aid Board has built up a great deal of experience functioning as a deposit guarantee agency, and it has kept pace with changes to carry out the work expected of it by the credit union system. Given its record of success during its first 30 years of existence, there is ample reason to believe that the Mutual Aid Board will be able to cope with problems that it faces in the future. One could quite justifiably expect some future manager of the Credit Union Deposit Guarantee Corporation to reply (most likely via electronic mail) to a concerned credit union member with the same response that has been made many times in the past. "No credit union member in Saskatchewan has ever lost one cent in deposits, and we are confident that the money you have invested in your credit union is safe.

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[8] *Credit Union Way*, March 26, 1980, p. 15.

[9] Management report to the Mutual Aid Board, September 24, 1982.

[10] *Credit Union Way*, June [illegible]5, 1977, p. 6-7.

See *Credit Union Way*, June 28, 1978, p. 4, and letter to the editor in *Credit Union Way*, July 26, 1978, p. 17.

[12] Management report to Credit Union Central board of directors on northern development, January 26, 1982; see also a summary of Central's brief to the Key Lake board of inquiry in *Credit Union Way*, October 22, 1980, p. 9.

[13] *Credit Union Way*, October, 1982, p. 8-14.

APPENDICES

APPENDIX I

A COMPARISON OF FIVE CREDIT UNION DEPOSIT PROTECTION FUNDS IN CANADA, 1982

Name and Year Established	Assets (1982)	Percentage of system shares and deposits	Annual Assessment Formula	Management	Board
British Columbia Credit Union Reserve Board (est. 1959)	$58 million	9%	Maximum 1 5 of % of shares and deposits. Also [illegible] interest-bearing debentures.	Independent of Central.	5 government appointed members 3 from credit union system no government representatives required.
Alberta Credit Union Stabilization Corporation (est. 1975)	$29.8 million	1.37%	Maximum ¼ of 1% of shares and deposits.	Managed by Central	5 voting members, 3 appointed by Central board, 1 from credit union system, 1 appointed by government 2 non voting members: Central general manager and director of credit unions.
Saskatchewan Mutual Aid Board (Credit Union Deposit Guarantee Corporation) (est. 1953)	$32.8 million	1.12%	Maximum .75 of 1% of shares and deposits	Managed by Central	5 members 2 appointed by Central board Central general manager 2 government representatives.

Name and Year Established	Assets (1982)	Percentage of system shares and deposits	Annual Assessment Formula	Management	Board
Manitoba Credit Union Stabilization Fund (est. 1965, became mandatory fund 1970)	*	*	Maximum ¼ of [illegible]% of shares, deposits and liabilities.	Independent of Central.	5 government appointed members, chairman; 2 representatives of credit union system; 2 representatives of government. No directors or employees of Central or any credit unions.
Ontario Share and Deposit Insurance Corporation (est. 1977)	$45.6 million	0.92%	[illegible]% of shares and deposits. Adjusted annually to maintain the level	Independent of Centrals	9 government appointed members: 3 nominated by Centrals, 3 nominated by caisse populaire federations, independent.

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* Comparable asset figures not available.

APPENDIX I (Continued)

Name	Powers	Inspection	Share and Deposit Guarantee	CDIC Lender of Last Resort Facility
British Columbia Credit Union Reserve Board	Can place credit union under supervision or administration, direct to amalgamate or dissolve. Credit Union can appeal to government tribunal.	Inspects credit unions under supervision. Government inspects all other credit unions.	Unlimited	Yes
Alberta Credit Union Stabilization Corporation	Credit unions in deficit position can be placed under supervision and control	Inspects all credit unions. Government has monitoring function	Unlimited	Yes
Saskatchewan Mutual Aid Board	Can place credit unions under supervision or administration. Normally done only if danger of loss to Fund.	Government inspects all credit unions. MAB monitors performances closely	Unlimited	Yes
Manitoba Credit Union Stabilization Fund	Credit unions in deficit position can be placed under supervision	Is auditor of credit unions with audit firms acting as agents. Government conducts examinations	Unlimited	No
Ontario Share and Deposit Insurance Corporation	Can take a credit union under direction operating and managing it. Director of credit unions can compel credit union to liquidate. May use advice of OSDIC	All credit unions not required to have an external audit are examined.	$60,000 maximum	No

APPENDIX II

GROWTH OF CREDIT UNION SYSTEM AND MUTUAL AID FUND ASSETS, SASKATCHEWAN, 1953-1982

Year	Total Number of Credit Unions	Total Assets	Members	MAF Assets	MAF assets as percentage of system assets
1953	268	$ 28,471 111	68,286	$ 22,972	0.08%
1954	279	29,467,356	75,854	55,960	0.19%
1955	284	32,356,118	80,396	90 112	0.28%
1956	283	58,646,038	86,036	127 181	0.33%
1957	284	44,825,002	92,981	170,505	0.38%
1958	279	56,450,159	103,289	222 842	0.39%
1959	276	71 681 185	117 777	270 000*	0.38%
1960	278	88 778,288	137,012	330 509	0.37%
1961	282	110,664,250	156,492	460,632	0.42%
1962	285	141,027 142	171 949	636 979	0.45%
1963	292	167 923,331	191 192	871 702	0.32%
1964	296	208,552,983	212,280	1 129 094	0.54%
1965	301	257,239 927	236,338	1,547 550	0.60%
1966	299	293,080,447	259,994	1 880,883	0.64%
1967	289	363 791 794	283,49[illegible]	2,419,143	0.66%
1968	287	387 263,370	302,471	3,008,005	0.78%
1969	278	394,806,987	310,915	5 735 720	0.95%
1970	268	406,838,884	319 656	4,612 461	1 13%
1971	261	478,819 122	336,[illegible]94	5 500,126	1 15%
1972	257	608,573,841	355,276	6 276,958	1.03%
1973	254	823,614,513	377,077	7 115 580	0.86%
1974	252	1,034,547,900	396,474	8,505,397	0.82%
1975	247	1 341 702 974	426,279	10,167,359	0.76%
1976	285	1 550,408,614	458,284	12,102,457	0.78%
1977	240	1 764,231,231	483,518	14,618,211	0.83%
1978	238	2,081 920,432	516,719	17,479,053	0.84%
1979	237	2,383,673 755	546,472	21,467 114	0.90%
1980	230	2 625 813,858	541,009	25 726,611	0.98%
1981	227	2,843,063 752	576,835	30,899 758	1 09%
1982	224	3,115,497,361	563,323	32,112,983	1 05%

Source: *Department of Co-operation and Co-operative Development, Province of Saskatchewan, Annual Reports, and Mutual Aid Board, Annual Reports.*

** 1959 Mutual Aid Board Annual Report was not available this is only an estimate.*

APPENDIX III

MEMBERS OF THE MUTUAL AID BOARD, 1953-1983

(Includes interim appointments)

Name	Years	Office	Represented
BINGHAM, Ken	1971-74		Credit Society
BROMBERGER, Norm	1977	Vice-chairman 1977	Credit Society
BUNN, G. R. (Ron)	1963-67	Chairman 1964-67	League
COLPRON, Ernest	1953-63		League
DELGATTY, Bernie G	1955-63	Chairman 1960-63	League
FOLSTAD, Dale	1982-83		Co-op Dept.
GALLAGHER, Angus	1963-66		League
GEBERT, Ed	1970-77	Chairman 1971-75; Vice-chairman 1975-77	Credit Society
GEMMEL, Harry	1966-70		League
HANSEN, Chris	1973-79	Vice-chairman 1973-75 Chairman 1975-79	Credit Society
HOWARD, A. Grant	1953-54		League
JOHNSON, Barney	1983-63		Credit Society
JONES, H	1977-78		Finance Dept.
KEEP, Vic	1977	Chairman 1979-	Credit Society
LAWRENCE, Henry L.	1954-60	Chairman 1955-60	League
LEWIS, C. E. (Cec)	1963-71	Chairman 1968-71	League/Society
LOKKEN, Lloyd	1975-78		Co-op Dept.
MacLEAN, A. C. (Mac)	1953-57	Vice-chairman 1953-57	Co-op Dept.
MARCOTTE, Ray J	1968-77		League/Society
MEIKLEJOHN, Morley	1978-		Finance Dept.
MITCHELL, Grant	1981-82		Co-op Dept.
MULHOLLAND, Al	1981		Co-op Dept.
NEVILLE, Ray	1960-63		League
NIELSEN, Gordon J	1953-55	Chairman 1953-55	League
READER, Bill	1983-		Co-op Dept.
REED, Jack	1978-81		Co-op Dept.
ROBINSON, Glen R.	1974-75		Co-op Dept.
SAMPSON, Phil	1970-73	Chairman 1973	Credit Society
SHIELDS, Jack	1963-70		Credit Society
SNELL, C. A. (Al)	1957-73	Vice-chairman 1957-73; Chairman 1963	Co-op Dept.
STEINSON, Ed	1973-74		Co-op Dept.
TENDLER, Les	1979-		Credit Society
VANIN, Sam	1974-77		Credit Society
VINEK, John	1975		Credit Society

SECRETARY-TREASURERS/MANAGERS OF THE MUTUAL AID BOARD, 1953-83

Name	Years
ERIKSEN Michael	1953-56
NIELSEN Gordon J	1956-58
AVRAM Percy	1958-59
CHARBONNEAU G A. (Al)	1959-65
JOHNSON Baldur	1965-70
TENDLER, Les	1970-72
BROMBERGER, Norm	1973-77
PAVELICK, Don	1977 78
BARR John	1978-82
WOUTERS, Peter	1982-

DIRECTORS OF OPERATIONS OF THE MUTUAL AID BOARD, 1978-83

Name	Years
DOSCH, Paul	1978-82
CUNNINGHAM, Ed	1982-

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This is the story of 35 years of achievement: the fulfillment of wise planning and sound financial management."

— [illegible], former manager of the Mutual Aid Board

Dennis Schroeder has been senior writer with *Credit Union Way* magazine in Regina since October 1981. He is a former editor and publisher of a weekly community newspaper in Ontario, and has been involved in the editorial production of numerous newsletters, magazines and books for organizations in Canada, the United States and East Africa. He has also worked as a freelance writer and consultant.

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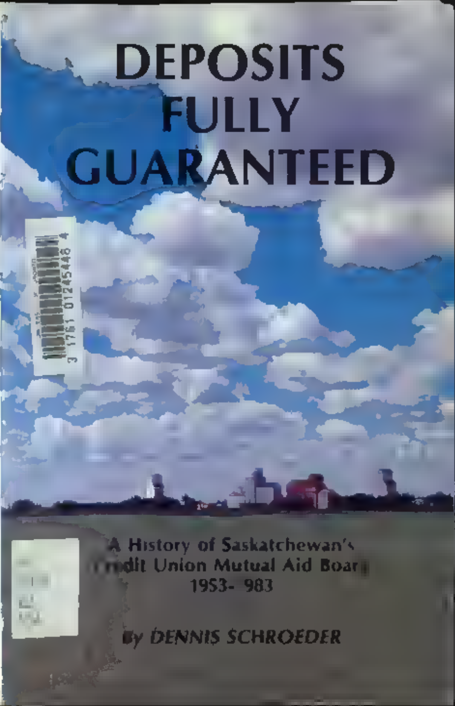

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A History of Saskatchewan's
Credit Union Mutual Aid Board
1953-1983

By DENNIS SCHROEDER

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DENNIS SCHROEDER

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Preface and Acknowledgements

When Ed Cunningham assumed the position of director of Saskatchewan's Credit Union Mutual Aid Board from Paul Dosch in 1982, Dosch passed on to him a "symbol" of the authority of his job — a fireman's hat, complete with a flashing light and a Mutual Aid Board logo. While the Mutual Aid Board is not exactly the "fire department" of the credit union system, there are some similarities. Like a fire department, the Board does respond to emergency situations in credit unions when there is a possibility that the shares and deposits of credit union members may be placed in jeopardy. Also, like an efficient fire department, the Board has developed a set of measures designed to prevent future crises. Unlike a fire department, the Mutual Aid Board doesn't just fight "fires"; it also serves as an insurance company that provides a guarantee against potential losses.

This book is an account of the history of the Mutual Aid Board, which pioneered the concept of deposit protection within the credit union movement in North America and has been a leader in refining and developing that concept. In May, 1983, the Mutual Aid Board marked its 30th anniversary, making it the oldest continuously operating credit union deposit protection fund on the continent. In that same month, provincial legislation was amended to permit the Board to assume a new name that more clearly identifies its primary function — the Credit Union Deposit Guarantee Corporation. The name change may signal the beginning of a new era in the life of a body that has matured and is playing an increasingly important role in the credit union system of Saskatchewan.

One note on the name: since this book describes the history of the organization during its first 30 years when it was known as the Mutual Aid Board, that name is used throughout the book.

The reader who knows little or nothing about the Mutual Aid Board can find in Chapter 1 a brief description of what the Board is, what it does and how it fits into the overall credit union system. A reading of the other five chapters will provide an understanding of how the Mutual Aid Board developed during its first 30 years. Chapter 2 sets the stage by tracing briefly the development of the co-operative and credit union movements both in Saskatchewan and elsewhere. The actual history of the Mutual Aid Board begins in Chapter 3, where the formative events of the 1950s are described. For the most part, developments during the 1960s are covered in Chapter 4 while the events leading up to the highly significant legislative amendments of 1977 are covered in Chapter 5. In the final chapter several issues and developments that helped to shape the Mutual Aid Board during the 1970s and early 1980s are singled out for special attention.

While a particular perspective has been imposed on this historical account by the author, the book is based on many bits of information gleaned from research and from discussions with people actively involved in the development of the Mutual Aid Board and related credit union organizations. I would like to thank the members of the book advisory committee for their guidance and assistance in making this project a reality. They are: Eldon Anderson, corporate secretary and manager of public affairs with Credit Union Central of Saskatchewan, Ed Cunningham, director of the Mutual Aid Board, Norm Bromberger, chief executive officer of Central, and Les Tendler, president of Central and general manager of Sherwood Credit Union in Regina. The latter two are also members of the Mutual Aid Board. Special thanks to Eldon Anderson also for making available photographs from his extensive collection.

Others who shared their insights and perceptions with the author include John Barr, the first manager of the Mutual Aid Board, Vic Keep, chairman of the Board, Dale Folstad and Morley Meiklejohn, who represented, respectively, the Department of Co-operation and Co-operative Development and the Department of Finance on the Board, Peter Wouters, Central's vice-president in charge of Mutual Aid Board operations, Greg Wallace, Doug Glessing and Gail Dell, the other members of the Mutual Aid Board management team, Al Mulholland, Glen Robinson and Walter Safinuk of the Department of Co-operation and Co-operative Development, Al Charbonneau, chief executive officer of the World Council of Credit Unions, and Baldur Johnson, chief executive officer of Credit Union Central of Alberta, both of whom played an important part in the development of the Mutual Aid Board and the Saskatchewan credit union system during the 1960s, Con Plemel and Bill Rossmann, former leaders of St. Gregor Credit Union, Mike Kinaschuk of Arran Credit Union, Leon Breton, formerly manager of Unity Credit Union, Barney Arnason, for many years Deputy Minister of Co-operation and one of the pioneers of the credit union movement in Saskatchewan, Ross Mont gomery general manager of the B.C. Credit Union Reserve Board Del Ross, who was associated with the CUNA stabilization fund in the United States and Joe Dierker legal counsel for the Board.

I would also like to thank Jim Duggleby editor of *Credit Union Way* magazine for his forbearance and patience, and for rescheduling magazine work assignments to allow me time to work on this project In addition the encouragement and understanding attitude of my wife Stephanie, were of great assistance.

While a book of this size cannot be a complete history of the Mutual Aid Board and perhaps does not do justice to all the people involved in developing the Board, I believe it does help to fill a gap in the recorded knowledge of Saskatchewan's credit union system If it helps in any way to increase the reader's understanding of one of the most vital aspects of the credit union system — the deposit protection function — then the efforts made to produce this book can be considered to have been worthwhile

Dennis Schroeder
July 1983

A Chronology of Events Affecting the Development of the Mutual Aid Board

1950 — Defalcations discovered at Arran and St. Gregor credit unions.
1951 — "St. Gregor fund" set up by Credit Union League of Saskatchewan, permanent stabilization fund proposed
1952 — Amendment to Credit Union Act passed by Saskatchewan legislature creating Mutual Aid Fund. Fund approved overwhelmingly in a poll of credit unions.
1953 — Provincial government order-in-council May 8 establishing Mutual Aid Board to administer Fund. First Board meeting May 22. Gordon Nielsen elected first chairman
1954 — Interest-free loans to St. Gregor and Arran credit unions are first financial assistance provided by Board.
1959 — Grants to St. Gregor and Arran credit unions, ending their financial difficulties
1961 — League sets up collection service. Board later contracts its services in dissolution of credit unions.
1962 — Credit union submissions made to Porter Royal Commission on banking. Commission recommends mutual aid funds for all credit unions. Revised Credit Union Act passed, permitting revolving fund, and permitting Board to act as liquidator of credit unions
1963 — League sets up Development Fund with financial assistance from Mutual Aid Board.
1964 — Mutual Aid Fund reaches $1 million and revolving fund begins
1967 — Canada Deposit Insurance Corporation established. Credit union stabilization funds denied membership. Carter Royal Commission recommends taxation of credit unions.

1970 — Amalgamation of League and Saskatchewan Co-operative Credit Society completed.

1971 — Role committee set up, with representation from Mutual Aid Board, Credit Society and government. Consultations are continued by a variety of committees and task forces.

1972 — New Income Tax Act introduces taxation of credit unions. Revised Credit Union Act passed in legislature; revolving fund terminated; new assessment formula adopted; Board becomes involved in bonding and insurance; Central Credit Committee established; Board given supervision powers. Management contract with Credit Society replaces nominal administration fee.

1973 — Unity Credit Union first to be placed under supervision. Financial difficulties resolved successfully.

1974 — Mutual Aid Board arranges lender-of-last-resort facility with CDIC. New supervision, amalgamation, financial assistance, investment policies drafted for Board. "Probability of distress" computer model first used on Mutual Aid Fund.

1977 — Credit Union Act amended; unlimited guarantee of shares and deposits formally stated for the first time, and Board powers expanded and clarified. Integrated Monitoring System begun as pilot project and expanded in later years.

1978 — Credit Union Central reorganized to create MAB Division. John Barr appointed first manager of Mutual Aid Board.

1983 — Board adopts trade name Credit Union Deposit Guarantee Corporation.

CHAPTER ONE

The Mutual Aid Board: What is it?

In 1967, a worried credit union member in Saskatchewan wrote a letter to the Credit Union League of Saskatchewan. In the letter, he said: "My wife and I have over $6,000 invested in our credit union. We recently lost $2,000 we had invested in a finance corporation in Ontario and as a consequence have cold feet. Would you please let us know just how safe our money is."

The League's managing director, Baldur Johnson, personally replied to the man. He wrote: "Since Saskatchewan credit unions began in 1937, no member has ever lost one cent in deposits or share capital." He went on to list a variety of reasons for this achievement and concluded his letter by saying, "By reason of our past record and the safeguards which have been built into credit union operations, I am confident that the money you have invested in your credit union is safe."

The concerns expressed by that man in 1967 have been felt by numerous other people as well. But the reply by Johnson could still be made today: no credit union member in Saskatchewan has ever suffered a loss of deposits or shares. In fact, since 1967, safeguards protecting members' money have become more comprehensive and more sophisticated.

One of the major reasons for this remarkable achievement by the Saskatchewan credit union system is the work of a little known body called the Credit Union Mutual Aid Board (MAB), which administers the Mutual Aid Fund. The primary task of this body is to guarantee the deposits of all credit union members in the province, and it has carried out this task successfully since it was established in 1953.

The credit union

The Mutual Aid Board is one vital element in the total credit union system, which is really an integrated network of institutions linked together in a variety of ways. The basic organization — the one that most people deal with on a day-to-day basis — is the credit union.

A credit union is a particular type of co-operative organization that provides a range of financial services to its members. The services are similar to those of most other financial institutions, such as chartered banks, trust companies, and finance companies. Credit unions accept deposits of money, through a variety of types of deposit accounts, and they lend money. They also offer services such as safety deposit boxes, traveller's cheques, money orders, and much more. In fact, several of the services now commonly provided by Canadian financial institutions, such as daily interest savings accounts, were pioneered by credit unions.

The primary difference between credit unions and other financial institutions is in their purposes. Most financial institutions are set up as business corporations intended to earn a profit for their shareholders. In the case of credit unions, all the people who make use of their services are also member-owners, so credit unions are essentially non-profit organizations providing services to their members at the lowest possible cost.

A credit union is a corporation established in Canada, under provincial legislation and operated by people in accordance with the principles and philosophy of the co-operative credit union system. The Credit Union Act in Saskatchewan, passed in 1937, described the purposes as follows: "The objects of a credit union shall be the promotion of thrift among its members and the creation of a source of credit for its members, at legitimate rates of interest, exclusively for provident and productive purposes."

The commonly accepted principles that guide credit unions include the following:

- Membership is voluntary and there is no discrimination on the basis of color, creed, politics, etc., as to who may join within the common bond of association;
- There is a democratic control system whereby voting privileges are vested equally among the members;
- The surplus is distributed among the members on the basis of a limited rate of dividend on invested capital plus, in some cases, a rebate of the amount of loan interest paid;
- To encourage thrift through savings and thus to provide loans and other member services, a fair rate of interest is paid on savings and deposits within the capability of the credit union.[2]

From the time the first credit unions were established, the concept of a common bond of association for members has prevailed. There are three general types of common bond: the occupational bond, in which all

members are employed in the same business or industry; the associational bond, in which all members belong to the same professional group, trade union, society or association, religious group, or ethnic group; and the residential bond, where all the members live in the same community or district. All these forms of common bond exist in Saskatchewan, but the community credit union, often with several branches, is most common.

Central organizations

Just as individual people grouped together to form credit unions, so also credit unions throughout Saskatchewan are linked to each other through their membership in a common organization, the Credit Union Central of Saskatchewan. This organization, which emerged following the amalgamation of the Credit Union League of Saskatchewan, mentioned earlier, and the Saskatchewan Co-operative Credit Society in 1970, serves as both a trade association, and a kind of "central bank" for credit unions, and is also a source of financing for co-operative organizations.

Central acts on behalf of credit unions in legislative matters, and provides them with services in the area of credit union development, human resources training and development, marketing programs, information sharing, centralized purchasing of supplies, and the operation of an electronic data processing system. Credit unions are also able to deposit temporarily surplus funds and invest reserves with Central, and funds from Central are loaned to credit unions, co-operatives and various other organizations and businesses.[3] In addition, Central provides cheque clearing facilities between credit unions and other financial institutions, and is the means by which credit unions are linked to the Canadian Payments Association, the national clearing system for all financial institutions.

Central is owned by its member credit unions and co-operatives, and is controlled through a democratic structure whereby its board of directors is responsible to delegates elected by credit unions and co-operatives at the sub-district and district levels. Provincial centrals and various financial co-operatives throughout Canada own and control a third-tier organization, the Canadian Co-operative Credit Society (CCCS), which provides financial and other services to credit unions and co-operatives at the national level. CCCS, in turn, represents Canadian credit unions on an international body, the World Council of Credit Unions.

How the Mutual Aid Board fits in

The Mutual Aid Board is one of several interrelated "lines of defence" in a fairly complex system that is designed to provide a full guarantee of all members' funds on deposit with Saskatchewan credit unions.

The first line of defence is in the credit union itself. The two main reasons why credit unions, or other financial institutions, fail are a lack of

THE SASKATCHEWAN CO-OPERATIVE
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The Co-op Block in Regina was the home of the Saskatchewan Co-operative Credit Society for nearly 30 years, from the early 1940s until 1972. The Credit Union League of Saskatchewan, Sherwood Credit Union, and several co-operative organizations also had offices in the building.

liquidity (cash and assets that are readily convertible to cash) and an inability to operate on a positive income basis. In the first case, the credit union can't meet its members' demands for cash. In the second case, it doesn't have an adequate capital base (share equity plus retained earnings) to carry it through the tough times when its financial margin (the margin between what it earns and what it must pay for money) is narrowed, or to withstand significant loan or investment losses.

With regard to liquidity, a credit union must carry out a balancing act. A liquidity shortage leads to severe operational difficulties. But excess amounts of cash and highly liquid assets reduce the credit union's ability to earn adequate interest, thus making it difficult to pay competitive rates on deposits. The minimum required level of liquidity in Saskatchewan, set by provincial credit union legislation, is 10 per cent of all share and deposit liabilities. Credit unions have been increasing their liquidity levels and, by the end of 1982, they exceeded the statutory liquidity level by $435 million, which was 14 per cent of total system assets.[4]

Because of fluctuations in liquidity levels and variations between credit unions, Credit Union Central maintains a provincial "liquidity pool" with funds invested in it by credit unions. The federal Cooperative Credit Associations Acts sets out certain requirements for levels of liquidity held by provincial centrals. However, the Canadian credit union system felt a need to go beyond these requirements and the centrals agreed to begin a formalized national liquidity management program in 1983. The formula called for the centrals to hold six per cent of their provincial credit union assets on an operating basis in liquid investments. In addition, two per cent of Canadian credit union assets were to be held in liquid investments by CCCS.[5]

With regard to a credit union's capital base, the balancing act required for liquidity management is not necessary; the larger the capital base, the stronger the credit union will be financially. Equity and retained earnings provide the credit union with a reservoir of low cost funds that can be used to improve the overall margin and enable greater growth. It also provides a cushion against losses, and helps to build confidence in the credit union on the part of depositors, potential lenders and regulatory agencies.

In Saskatchewan, total credit union capital had grown to $115 million by 1982, doubling in just four years. The capital asset ratio had improved from 2.2 per cent in 1975 to 3.7 per cent in 1982.[6] This ratio was better than that of other provincial credit union systems, as well as Canadian chartered banks, where the ratio had declined during the same period.

The credit union system set for itself the goal of raising the level of capital to five per cent of total assets; one plan set targets of three per cent in retained earnings and two per cent in equity. In Saskatchewan, retained earnings had reached the three per cent level by the early 1980s, but there was still a need to build up share equity levels.

A central reserve fund

The second line of defence for members' deposits is the Mutual Aid Fund, which is, in effect, a central reserve fund to which all credit unions contribute annually. By 1982, this fund had reached $33 million, so that, combined with the retained earnings and equity already built up by credit unions, the total had reached 4.8 per cent of all credit union assets in

This building in Regina was completed and became the home of the Credit Union Central of Saskatchewan in 1976. All of Central's facilities and services, including the management of the Mutual Aid Board (Credit Union Deposit Guarantee Corporation) are located in the building. The Department of Co-operation and Co-operative Development also has its offices there.

Saskatchewan by 1982. This level had been growing steadily from 3.5 per cent in 1977.[7]

In addition, there is a third line of defence. Beyond the comprehensive set of deposit protection mechanisms built into the credit union system itself, governments provide an implicit guarantee of depositors' funds. The federal government, as regulator and manager of the money supply, has an interest in ensuring the confidence of depositors, since that is essential for the stable functioning of the economy. It has demonstrated, on a number of occasions when financial institutions have failed, that it will act to protect deposits.

Federal government support for depositors in financial institutions is normally channelled through the Canada Deposit Insurance Corporation (CDIC). The credit union system is not covered by federal deposit insurance, as is the case with chartered banks and numerous other financial institutions. This means that credit union members' deposits are not covered by the CDIC deposit insurance which has an upper limit of $60 000, but rather by the *Mutual Aid Board which provides an unlimited guarantee of all*

savings and deposits (including accrued interest or dividends) of Saskatchewan credit union members.

At the same time, the credit union system is now recognized by the federal government as being a significant part of the monetary economy, and it is understood that a major financial failure in the credit union system could have an impact on the rest of the economy. As a result, both the Mutual Aid Board and Credit Union Central of Saskatchewan have been authorized to enter into agreements with the CDIC providing for it to act as lender of last resort. Under provisions of the federal Cooperative Credit Associations Act, should there ever be a temporary shortage of liquidity in Saskatchewan credit unions, the CDIC could lend up to $200 million to the Mutual Aid Board or Central to meet short-term liquidity requirements.[8]

Provincial governments, which have jurisdiction over credit unions, also have an interest in ensuring that deposits are well protected. In 1982, the government of Manitoba provided financial assistance to the stabilization funds of the credit union and caisse populaire systems when those funds became depleted. In Saskatchewan, where well over half of the entire population hold deposits in credit unions, it is likely that the provincial government would also take action to protect members' deposits in credit unions if no other alternatives were adequate.[9]

The safeguard mechanisms that are in place and the level of reserves in Saskatchewan make the need for assistance from either the provincial government or the CDIC highly unlikely, but the fact remains that the potential for such assistance does exist should it ever be absolutely necessary.

The Mutual Aid Board's purpose and objectives

The Mutual Aid Board has a three-fold purpose. As has been mentioned already, one part of its purpose is to provide an unlimited guarantee of members' funds on deposit with Saskatchewan credit unions. But it is not just a deposit insurance agency like the CDIC, which has been described as a "burial service" that winds up the operations of failed financial institutions and pays out the depositors. A second part of the Mutual Aid Board's purpose makes its expanded role clear: it is to provide preventive services to avert financial difficulties in credit unions. In other words, the Board not only has a commitment to credit union members, it is also committed to the credit unions themselves, and will attempt to keep them financially healthy. Closely related to that is the third part of the Board's purpose: to protect the Fund itself.

In keeping with the overall purpose of the Mutual Aid Board, its stated objectives[10] are as follows:

People — To protect member deposits.

Money — To maintain a fund that guarantees member deposits and supports services that protect the fund.

Development — To communicate to credit unions, members, and the public the effective level of deposit protection, and to provide preventive services that enhance credit union financial self-reliance.

The structure and operations of the Mutual Aid Board are generally similar to those of stabilization funds in other Canadian provinces, but there are some significant differences. For a comparison of the five largest funds, see Appendix I.

Building the fund

The Mutual Aid Fund is built up through annual assessments levied on each credit union in the province. Under provincial legislation, the Board is permitted to levy a maximum of one-fifth of one per cent of shares and deposits of the credit union. The Board has not normally levied the maximum assessment; in most years it has been set at one-seventh of one per cent or less. Should the Fund fall into danger of being impaired, the Board is permitted to make one additional annual assessment of up to one-fifth of one per cent of shares and deposits.

In addition to assessments, the Fund is built up through earnings on investments. The policy of the Board is to place more than half of its investments outside of the credit union system. The theory is that a fund set up to protect the credit union system should not all be invested in that system. These out-of-system investments are mostly long and short term federal and provincial government bonds.

Another 20 to 40 per cent of investments are in Credit Union Central shares and deposits, and the remainder is in other securities, including Co-operative Trust Company of Canada shares and guaranteed investment certificates.[11]

The Fund is also used to assist credit unions in difficulties. According to the Credit Union Act, the Board is able to make loans, advances or grants-in-aid to credit unions, and it can also guarantee liabilities assumed or acquired by a credit union. In 1982, about 30 per cent of the Fund was in loans rather than investments. The general policy of the Board is to make interest-free loans, and allow a credit union to use the interest earned from that money to build up its reserves. Of course, the interest free loan policy does reduce the Fund's earning ability in order to ensure the guarantee of deposits. Nevertheless, the Board has been able to maintain the Fund at or near its goal of one per cent of total credit union system assets since the late 1960s (See Appendix II).

There are, no doubt, people who wonder how a fund that amounts to only one per cent of total credit union assets could possibly be considered to be adequate protection for members' deposits. The determination of the size of an adequate fund is based on a number of things, including the past experiences of the Saskatchewan credit union system, and of agencies such

as the CDIC and the Federal Deposit Insurance Corporation in the United States, along with comparisons with other deposit protection funds.[11]

A quantitative test of fund adequacy has also been devised. It is based on a computer model designed in the early 1970s for the Credit Union Reserve Board of British Columbia by Prof. R. W. White of the University of Western Ontario, and later adapted for use by other stabilization funds, including the Mutual Aid Fund.

The White model, in providing a simulation of stabilization fund operations, does two things. It estimates the likelihood of a credit union being in distress, and it estimates the size of liabilities to the fund as a consequence of this distress level. Inputs into the model include regional and provincial economic variables, financial market variables, and variables covering the historical operating data of each credit union.

Is there any final, conclusive proof that the Fund is adequate in size? Perhaps not. The probability of distress model and the ratios of other funds to deposits protected certainly provide useful indicators. The past experience of the Mutual Aid Board, in having been able to deal successfully with each problem that has arisen, is a further indication that it is moving in the right direction. Much of the real protection of deposits stems from the preventive and rehabilitative measures taken by the Board. To the extent that it is possible to assess the matter, the evidence is that the Fund, as it is now structured, together with other reserves in the system, is adequate to cope with anything but a massive collapse of the credit union system. The programs of the Board, described later, are designed to minimize the possibility of any major crisis.

Structure of the Board

The Mutual Aid Board, as defined in legislation passed in 1977, consists of five members, three from the credit union system and two from the Saskatchewan government. Two members are appointed by the board of directors of Credit Union Central, with one of them usually being a director. Other Board members are the general manager of Central, the deputy minister of finance, and the deputy minister of co-operation and co-operative development, or their nominees. Management is provided for the Mutual Aid Board on a contract basis by Credit Union Central.

What the Mutual Aid Board does

The functions of the Board in relationship to credit unions can be divided into two main categories: prevention and rehabilitation. Over the years, there has been a shift to greater emphasis on prevention as the Board attempts to increase the amount of self regulation in credit unions.

One of the most vital aspects of the task of preventing credit unions from falling into difficulties is the monitoring of their performances. The

Board has developed a comprehensive monitoring program known as its "early warning system". One of the outputs of this system is a "watch list" that identifies credit unions requiring special attention.

The essence of all preventive programming is to ensure that credit unions are run according to sound business practices. One important aspect is a Mutual Aid Board program which updates and maintains policy, operations and loans manuals. Assistance to credit unions in developing policies on loans and other matters is also aimed at improving management procedures. Mutual Aid Board collaboration with the government in revising and amending credit union legislation is intended to make the legislation more relevant to the current needs and operations of credit unions.

Most of the loan losses in the credit union system have been experienced in the area of commercial lending. As a result, the Central Credit Committee was set up to review loans made for business purposes, as well as certain other loans. Lending limits are established by the Mutual Aid Board for each credit union, and loans for amounts above those limits must be referred to the Central Credit Committee.

Another aspect of the Board's loss prevention program is its bonding and insurance coverage. Since the early 1970s, the Board has operated a master bond program which provides standardized coverage for the entire credit union system throughout the province. It has also been involved in programs to improve security and reduce losses, for example, through the upgrading of safekeeping and burglar alarm equipment.

When credit unions do find themselves in difficulties, the Mutual Aid Board can take action in a variety of ways, depending on the nature of the problems. If a credit union has particularly serious problems, the Mutual Aid Board has the power to place it under supervision, while providing it with financial assistance. The primary reasons why supervision is imposed are: a failure by a credit union to develop adequate reserves, a failure to develop adequate plans and policies; or a failure to operate in a sound and business-like manner. A credit union has the right under the Credit Union Act to appeal a declaration of supervision to the government registrar of credit unions.

In some cases, it becomes clear that it will be impossible to "nurse" a credit union back to health. To protect members' shares and deposits when a credit union becomes non-viable, the Mutual Aid Board becomes involved in the dissolution of the credit union or its amalgamation with another credit union. In cases of dissolution, the Board may be appointed liquidator on those rare occasions when it appears likely that the credit union will be unable to meet the claims of members for withdrawal of shares or deposits.

The preventive and rehabilitative programs of the Mutual Aid Board which continue to evolve and be refined to meet changing needs, have been

remarkably successful in keeping the Saskatchewan credit union system healthy. Along with other measures provided by the system, they ensure that Saskatchewan's credit unions are extremely safe places in which to deposit money.

Footnotes

[1] The guarantee of shares is something unique to credit unions. However, the nature of credit union shares must be explained. A share account typically consists of a $5.00 ownership share and a separate amount which is essentially a savings account, except that the return is based on the performance of the credit union and life insurance coverage is provided on the account. So, the share account is not true equity that is at risk.

[2] Taken from the Statement of Credit Union Operating Principles, adopted by the World Council of Credit Unions.

[3] Central's retail/commercial loans division is responsible for loans to retail co-operatives and credit unions, as well as farm, commercial and residential loans referred by credit unions. The wholesale/commercial loans division concentrates on mortgage investments or bridge financing loans primarily to property developers through brokerage agencies. Loans to central co-operatives are also serviced through this division.

[4] Mutual Aid Board, Integrated Monitoring System quarterly report, December 1982.

[5] *Credit Union Way*, August, 1982, p. 27.

[6] Mutual Aid Board, *Annual Report*, 1982.

[7] Mutual Aid Board, *Annual Report*, 1982.

[8] It must be emphasized that assistance to the credit union system from the CDIC is only in cases of liquidity shortages, and does not cover absolute losses. There have, however, been some examples of government assistance in cases of absolute loss: for example, assistance to the caisse d'entraide system in Quebec and the credit union systems in Yukon and the Northwest Territories.

[9] In fact, the Saskatchewan government did take steps to protect depositors of Sherwood Credit Union in Regina when that credit union experienced financial difficulties in the 1950s. See Chapter 3, page 46.

[10] The statements of purpose, objectives and strategic priorities were revised by the Board in September, 1983. These are the revised objectives.

[11] Management report to Mutual Aid Board, October 31, 1982.

[12] The deposit insurance fund of the CDIC amounted to 0.2 per cent of total deposits insured in 1982. In addition, the CDIC is able to borrow from the federal government's consolidated revenue fund. The insurance fund of the FDIC was 1.15 per cent of estimated insured deposits in 1980. The FDIC also has access to funds in the U.S. Treasury in an emergency. Other provincial credit union deposit protection funds in Canada are close to one per cent of all provincial shares and deposits. (See Appendix I)

CHAPTER TWO

Origins of the Mutual Aid Board

The Mutual Aid Board of Saskatchewan was the first body of its kind in the North American credit union movement. Its founders had few precedents from which they could borrow, but they were able to draw on the strong co-operative tradition that had developed in Saskatchewan. The credit union movement in Saskatchewan got its inspiration from credit union developments in other parts of the world, while its impetus came from leaders of the growing co-operative movement within the province.

The first "people's banks"

The first credit union in the world was a co-operative credit society or "people's bank" organized in Prussia in 1850 by Hermann Schultze-Delitzsch, who was interested in providing credit to craftsmen and artisans unable to obtain services from the commercial banks. In 1864, Friedrich Wilhelm Raiffeisen organized the first rural self-help credit society for farmers in Germany. While both types of people's banks were based on the democratic principles of the Rochdale co-operatives in England, the Raiffeisen banks, with their self-help emphasis, became more popular and grew more rapidly. They continue to be an important factor in the European financial community to this day.

The first credit union in North America was a caisse populaire (people's bank) established in the province of Quebec. It was founded by a journalist and legislative reporter, Alphonse Desjardins, in his hometown of Levis. Like the leaders of the European movements, Desjardins was a man of strong moral purpose who was deeply concerned that lower income people

were refused credit by banks and had to borrow at usurious interest rates from unscrupulous money lenders. One innovation he introduced was a common bond of association, permitting everyone within a church parish to become a member of the co-operative bank.

Desjardins was also instrumental in introducing the credit union concept into the United States. Among a group of interested people who listened to him speak about credit unions at a meeting in Massachusetts in 1906 was Edward Filene, a Boston merchant and philanthropist. In the following years, Filene and Roy Bergengren provided leadership in spreading the credit union concept throughout the U.S. The Americans introduced the occupational and associational bond credit unions, along with the residential bond patterned after the Desjardins model.

Bergengren also played a part in introducing the credit union idea to English-speaking Canada. He worked together with a group of Catholic educators, led by Dr. Moses Coady, at St. Francis Xavier University in Antigonish to set up credit unions for farmers, fishermen and industrial workers in Nova Scotia in the depressed conditions of the late 1920s and early 1930s. It was the "Antigonish model" credit union that came to flourish later in Saskatchewan and the other Prairie provinces.

The co-operative movement in Saskatchewan

The history of the co-operative movement in Saskatchewan dates back to the establishment of the first farming homesteads on the western plains in the late 19th century. Settlement in the western territories was encouraged by the federal government, which wanted to consolidate control over the area as part of its National Policy. It was also in the interests of the transcontinental railways, which needed more traffic, and eastern business interests, which needed cheap raw materials and protected markets for their manufactured goods.

But for Prairie farmers, the situation was different. Living in near isolation and scattered over a large area, they were far from the markets for their grain, and they had virtually no control over those markets. They came to resent deeply the fact that they were totally at the mercy of the railways, the grain exchange, and the grain elevator and milling companies, in setting prices and transporting and storing their grain.[1]

The farmers made a significant breakthrough when they formed the Territorial Grain Growers Association at Indian Head, Saskatchewan, and won important court victories against the Canadian Pacific Railway in 1902 and 1903, forcing the railway to stop favoring the elevator companies in the apportionment of rail cars.

The farmers were still faced with strong opposition, but spurred by that initial victory, they went on, led by men like E. A. Partridge and W. R. Motherwell, to form the Saskatchewan Co-operative Elevator Company and the Saskatchewan Co-operative Wheat Producers (which later acquired

the elevator company and became the Saskatchewan Wheat Pool). As the benefits of local ownership and control became more apparent, farmers established new co-operatives for the storage and marketing of wheat, livestock, eggs, poultry and dairy products by the end of the 1920s.

They pressed for the formation of the Canadian Wheat Board to reduce the market domination of the international trading concerns. To lower their production costs, they organized a co-operative society for the wholesale purchasing and retail distribution of farm supplies. That organization grew into the present-day Federated Co-operatives Limited. To combat the monopolistic practices of the oil companies, they built the world's first co-operative oil refinery in Regina.

Clearly, the growth of the co-operative movement in Saskatchewan was not just the result of dreamy idealists espousing lofty principles. It was built with a great deal of effort in hundreds of small communities by tough pioneer farmers struggling to survive in the face of an often harsh and extremely variable climate, and an economy over which they had no more control than the weather.

The province of Saskatchewan was created in 1905, just as the co-operative movement was beginning to grow. Since there were few vested business interests in the province at the time, and since there were almost no local institutions other than the co-operatives capable of initiating economic expansion, it was natural that the provincial government should become an active promoter and supporter of the co-operative movement. Many of the politicians and civil servants had participated in the organization and running of co-operatives before they entered government.

The double force of the greatest depression of the twentieth century and seven consecutive years of drought dealt a devastating blow to Saskatchewan farmers during the 1930s. They were, perhaps, hit harder than any other group in North America. Tens of thousands of farmers, especially in the "dust bowl" of southern Saskatchewan, lost virtually everything they had and many farm families were forced to abandon their land and go on relief. In the towns, hundreds of businesses failed, throwing many people out of work. Numerous co-operatives failed to survive, as well.

Banks closed scores of rural branches in Saskatchewan, as borrowers were unable to keep up loan payments and collateral literally blew away in the dust storms. It became virtually impossible for many people to obtain credit, just when they needed it desperately in order to make a new start in life.

Credit unions in Saskatchewan

B. N. (Barney) Arnason, a young marketing economist in the Co-operation and Markets Branch of the Saskatchewan Department of Agriculture, realized that, with the whole province facing the massive task of rebuilding its agriculture and its economic life, something special would

be needed to help people get on their feet again. Once again, people would have to rely on themselves and their neighbors, so it was time for the co-operative movement to enter a new phase.

He began to gather information about the caisse populaire movement in Quebec and the credit union movement in Nova Scotia. In 1934, he helped to organize a conference of Saskatchewan co-operative associations and invited George Keen, the secretary of the Co-operative Union of Canada, to come to the conference and introduce the idea of credit unions.

After the conference, a committee was set up with Harry Fowler of the co-operative refinery as chairman. It pressed the government to enact credit union legislation and, in 1937, the Credit Union Act came into force. Arnason, who was actively involved in drafting the legislation, borrowed heavily from the Nova Scotia Act. In 1937, he became registrar of credit unions and he provided quiet, steadying guidance for the movement until he retired 30 years later. In 1944, the government created the Department of Co-operation and Co-operative Development, with a Credit Union Branch, and Arnason became the Department's deputy minister, a position he also held until 1967.

In its formative years, the Saskatchewan credit union movement received a good deal of advice and assistance from leaders such as Bergengren and Coady, who were experienced in setting up credit unions, and from Walter Francis.[3] The first credit union chartered in Saskatchewan in 1937 was the Regina Hebrew Savings and Credit Union. It was followed by other urban credit unions set up by government and co-operative employees.

The first rural credit union was organized at Lafleche under the leadership of T. H. Bourassa, a local merchant. It formed a successful model that was copied in hundreds of other rural communities around the province. The rural credit unions had an enormous impact on Saskatchewan's economy as, for the first time, people were able to put their own savings to work for their mutual benefit and, at the same time, retain control of these revolving development funds within their own communities.

Soon after the first credit unions were formed, their leaders gathered in Regina to set up an association that could promote the development of credit unions, provide some services for its members, and represent them in dealings with the government. The Credit Union Federation, later renamed the Credit Union League, was established in 1938, and Thomas Molloy, a retired civil servant, became its president, a position he held for the next 14 years. He was a major influence on the development of the movement for the first two decades of its history.

As credit unions began to grow, there was an increasing need for them to have some place to deposit surplus funds when members did not need to borrow. The banks were reopening branches in Saskatchewan, but there

B.N. (Barney) Arnason, deputy minister of co-operation and co-operative development from 1944 to 1967, and registrar of credit unions from 1937 to 1967. He was one of the founders of the credit union movement in Saskatchewan. (Credit: Saskatchewan Government Photo Service)

was a lingering suspicion that they might once again withdraw some of their services if economic conditions worsened. So, in typical fashion, Saskatchewan co-operative leaders decided to pioneer a new form of institution that would meet their needs and at the same time retain control locally.

As a result, in 1941, they established the Saskatchewan Co-operative Credit Society to serve as a central depository for surplus funds from credit unions. It earned interest on those deposits by lending them to local credit unions and co-operative associations when they were needed. Molloy, Fowler, and George Munro, another one of the leaders of the movement, were instrumental in getting the Credit Society started. These three men served successively as president of the Society from 1941 to 1966.

Protecting members' shares and deposits

The credit union movement quickly took root and grew in Saskatchewan. By the time it was 10 years old, in 1947, it had grown from nothing to 188 credit unions, with over 31,000 members and assets of more than $5 million.

The movement was also remarkably successful at running its affairs. In fact, the Saskatchewan Federation received an award from CUNA in 1944 for organizing the most credit unions per thousand of population and having the lowest percentage of liquidations of any league on the continent. In 1947, *Credit Union Way*, the League's official publication, proudly proclaimed that no credit unions had failed and no members had lost any shares or deposits. More than $10 million had been loaned out by credit unions in the first decade and losses totalled only $600.

Unquestionably, the movement's leadership was concerned that credit unions should manage their money carefully to protect members. For example, the Credit Union Act required that at least 20 per cent of credit union net earnings be set aside each year in a reserve fund against bad loans or losses. The reserve fund was to be built up to 10 per cent of assets. In addition, a cash reserve of at least five per cent of paid-up capital was to be maintained to meet possible withdrawals of shares. Leaders such as Thomas Molloy, foreseeing the likelihood of increased loan demand in the post-war period and the possibility of more hard times in the future, strongly emphasized the need to build reserves during the comparatively stable period of the early 1940s.

Another safeguard built into the Act was the creation of the credit union supervisory committee. It was expected to keep fully informed on the financial condition of the credit union, examining all loan applications, examining the securities held as collateral for loans, auditing the books, verifying pass books and accounts, and reporting to the directors and the registrar. Molloy described the supervisory committee as "the guardian of the equity which each individual member has in the credit union."[3]

An additional protection provided by the Act was a requirement that all officers and employees handling money be covered by fidelity bonds. During the early years, the Federation negotiated group coverage for credit unions with Saskatchewan Guarantee and Fidelity Company but, as credit union assets grew, there were concerns about the adequacy of the bonding program. There was a feeling that treasurers should be bonded for up to 15 per cent of assets. The need to improve and standardize bond coverage led the League to introduce a province-wide master bonding program providing both fidelity and blanket bond coverage. Burglary and holdup insurance were also introduced, as a growing number of credit unions were keeping cash on hand and providing a form of chequing service. Insurance companies such as CUNA Mutual Insurance Society also introduced loan protection, in which it guaranteed the credit union against loss due to death (and later, permanent disability) of the borrower.

To back up and enforce the provisions of the Act, the government set up a team of credit union inspectors in its Department of Co-operation. Credit unions were required to file monthly, quarterly and annual reports with the department and the inspectors made regular visits to credit unions. Since many credit union treasurers and directors had no prior experience of running a financial business, the inspectors provided invaluable assistance,

often instructing credit union officials in the basics. The first inspector, A. C. "Mac" MacLean, was involved in the organization of more than 220 credit unions and served as supervisor of the Credit Union Branch from 1944 until 1956. Another one of the first inspectors who became something of a living legend for his work among credit unions was C. A. "Al" Snell. He was director of the Credit Union Branch from 1956 to 1973.

However, with all the protective measures and support, there is some evidence to show that good luck played more than a little part in the excellent record of Saskatchewan credit unions during the 1940s. Many credit unions ignored the advice about building reserves. Between 1938 and 1949, statutory reserves ranged between 0.9 and 2.9 per cent of total credit union assets. Government officials did not make an issue of it because of the low number of write-offs for uncollectible loans.

A veteran credit union manager, recalling the 1940s, felt that one reason why there were few problems with loans was that most of them were for very small amounts of money. In fact, many credit unions were lax in collecting on overdue loans, especially the small ones. A study of 31 credit

Thomas Molloy (right) with Bob Svoboda, former League vice-president, at a Credit Union League of Saskatchewan annual meeting in the 1950s. Molloy was president of the League from 1938 to 1952, managing director of the League from 1949 to 1951, and president of the Saskatchewan Co-operative Credit Society from 1941 to 1947. He was one of the foremost leaders of the Saskatchewan credit union movement during its first two decades.

unions in 1948 showed a serious delinquency problem. It was found that 35 per cent of all loans, amounting to 20 per cent of all money loaned out, were overdue. Thirty nine per cent of all loans for less than $25 were overdue.

Crisis strikes

While laxity and sloppy management by some credit union officials was causing concern to leaders in the movement during the 1940s, the need for greater protection of members' shares and deposits came to a head in 1950 and 1951.

One system-wide problem was caused by those old nemeses of Saskatchewan farmers — the weather and the railways. In 1950, a calamitous frost hit most of Saskatchewan, lowering the grade and price of much of the grain. In addition, there was a very late and incomplete harvest and, to make matters even worse, an embargo was placed on grain deliveries because of a shortage of rail cars. Then, in 1951, there was a bumper crop, but the grain was tough and damp at harvesting time, and anywhere from 25 to 30 per cent of the crop was left in the fields. Meanwhile, shipping difficulties continued and much of the 1950 grain remained undelivered.

One of the immediate results of these problems was a heavy draw on deposits at the Credit Society. Between 1949 and 1951, deposits plummeted from $3.2 million down to $1.2 million.[4] These events highlighted once again the fact that the economy of Saskatchewan was centred almost completely on agriculture, especially wheat and coarse grains. Two bad crop years in a row could set off a chain reaction that rippled through the entire economy.

For credit unions, one lesson learned was that, in an economy heavily dependent on one industry — an industry that produced wildly fluctuating levels of income — it was necessary at all times to maintain a high level of liquidity. Beyond that, there was the danger that several consecutive crop failures could cause many farmers to default on their loans, and that would place a heavy strain on reserves, which were already at inadequate levels. Since crop failures could occur simultaneously across the province, there was a need for a system wide effort to build reserves.

While the problems of maintaining adequate liquidity and reserves in an agricultural economy caused concern in the credit union movement in Saskatchewan, the idea of forming some sort of central reserve fund was, at most, still only a vague notion in the minds of a few people. Two specific events were needed to touch off serious discussion about setting up a central fund. Both of these events, which occurred within a few months of each other, involved yet another potential threat to the security of members' shares and deposits — defalcation, or the misappropriation of credit union funds.

The first case occurred in St. Gregor, a small community just east of Humboldt. The manager of the credit union there also operated a lumber

An annual meeting of the Co operative Union of Canada held in Winnipeg in 1946. Several prominent members of the Saskatchewan credit union movement were present yard and worked for a grain company. In 1950, the credit union's supervisory committee was told by a bond man from the grain company that grain company money had been used for credit union purposes.

The credit union called in the government inspectors to do an audit. It turned out that the manager had not taken any money for his own personal use, but that he was in the habit of transferring money from one of his three business operations to another to cover shortages. It took the inspectors four months of going through the books to sort out everything that had happened. They discovered that about $36 000, which was 55 percent of the total savings of the 350 members, was missing.

About $8 000 was recovered through a bond claim, bringing the total loss down to some $28 000. Meanwhile, charges were laid against the manager and, after a lengthy trial in 1951, he was convicted and served a period in prison. Despite that, the general feeling of local people was that, while the man may have done a poor job of managing money, he really had the best interests of the community at heart and had not meant to do anything wrong. A special general meeting of the credit union was held in March, 1951, and members were advised of what had happened. A month later, at the annual meeting, members clearly showed that they were committed to carrying on with the credit union in spite of the loss.[5]

Shortly after the problems surfaced at St. Gregor, the second case of misappropriation of funds became known at Arran, a small town near the Manitoba border. There, an audit showed that the balances recorded in members' pass books were not the same as those in the credit union books. After three months of examination, the inspectors reported the bad news: more than $71 000 was missing. It was a clear case of misappropriation by the manager and it was never discovered what the funds had been used for. As at St. Gregor, there was a trial and the manager was convicted and served a term in prison.

The loss amounted to about 45 per cent of total savings of the 518 members. In some cases, members had all their life savings in the credit union. One widow and her three sons had put $30 000, the proceeds of a farm sale, into the credit union for temporary safekeeping. A bond claim and the seizure and sale of the manager's personal effects reduced the loss to about $58 000, but that was still a substantial amount for a credit union of that size. The members were told about the loss at a couple of general meetings in 1951. Some of them were upset, but no one was openly hostile. There was a feeling that not much could be done about it. As at St. Gregor, the members decided that the only way to recover the losses was to carry on with the credit union.[6]

A central fund proposed

The response from the credit union system was swift. After news of the loss at St. Gregor became known, several credit unions sent cheques to the

Credit Union League with the intention of helping to cover the loss. At a League directors' meeting in January, 1951, Henry Lawrence[7] of Lashburn suggested an amendment to the Credit Union Act permitting the League to assess and collect a portion of credit unions' annual reserve allocations, and to set up a fund for the redemption of the shares of a credit union facing dissolution with financial loss to its shareholders.

The debate about a fund continued throughout much of 1951. After a meeting with Premier T. C. Douglas, who was also Minister of Co-operation, and the deputy minister, Barney Arnason, the League directors decided that no action should be taken until after the court case involving the St. Gregor manager was completed. But at the League's annual meeting in July, a motion by Lawrence, that the League should investigate the possibility of setting up a stabilization fund, was approved by the delegates.

Another resolution passed after lengthy debate proposed that, of the 20 per cent of net income each credit union was required to allocate to reserves

Henry Lawrence (right) was presented with a plaque by Ra[illegible] Neville in [illegible] in honour of his lengthy service to the Saskatchewan credit union movement. Lawrence strongly supported the concept of a mutual aid fund, and was chairman of the Mutual Aid Board from 1955 to 1960. Neville was president of the Credit Union League from 1958 to 1964, and was a member of the Mutual Aid Board from 1960 to 1963.

annually, five per cent should be deposited in a central fund and the remaining 15 per cent retained by the credit union. Yet another resolution that was approved called for the League to set up a voluntary fund for contributions to assist St. Gregor Credit Union.

The idea of a fund seemed to be gaining acceptance, but it was not clear what the fund should do. The League's legislative committee felt the fund should not be used to reimburse credit unions for defalcations; such losses should be covered by adequate bonding. But when this committee met with Premier Douglas and Arnason in September, 1951, the premier indicated that he thought such losses should come within the scope of the fund. He argued that the situations in St. Gregor and Arran could have serious consequences for the whole co-operative movement. By November, 1951, the League executive committee was already at the stage of setting down the purposes of the proposed fund, and deciding who should sit on its board and how much the annual assessments should be.

Certainly, the possible dissolution of the two credit unions and the substantial loss of savings by their members worried many people in the movement. Many of them recalled the collapse of Home Bank in the 1920s and the difficulties of the Bank of British North America in the early 1930s, and the effects they had on Saskatchewan depositors. They were also aware of the many bank failures that had taken place in the United States. The credit union system in Saskatchewan was still small, even though it had grown substantially during the 1940s. There was a feeling among leaders that many people were still not sure about whether it was safe to keep deposits in a credit union. If nothing were done about the losses at St. Gregor and Arran, the future of the whole movement in Saskatchewan might be placed in jeopardy. So, by the end of 1951, it was generally accepted that a central stabilization fund should be set up as soon as possible.

Footnotes

[1] For a full analysis of the factors leading to the development of the co-operative movement in Saskatchewan, see Norman Bromberger, *Conflict and Co-operation* (Regina: Saskatchewan Co-operative Credit Society, 1973).

[2] Francis, a Saskatoon lawyer, served as legal counsel for the Credit Union League and the Credit Society, as well as for numerous other co-operative organizations until his death in 1964. An acknowledged expert in co-operative law, he represented co-operative organizations during the hearings of the Royal Commission on Co-operatives in 1944-45, and played a leading part in drafting the federal Cooperative Credit Associations Act, and in incorporating the Canadian Co-operative Credit Society under this legislation.

[3] From an editorial by Molloy in *Credit Union Way*, March, 1947.

[4] Saskatchewan Co-operative Credit Society, *Annual Report*, 1951.

[5] Accounts of the losses and the recovery at St. Gregor Credit Union appeared in *Credit Union Way* in October, 1959 and February, 1964.

[6] The story of the losses and recovery at Arran Credit Union was told in *Credit Union Way* September 1959 See also Muriel Clements, *By Their Bootstraps A History of the Credit Union Movement in Saskatchewan* (Toronto Clarke Irwin, 1965), p.196-201

[7] It is not clear who could be credited with originating the idea of a mutual aid fund But Lawrence was certainly one of the strongest promoters of the idea. He joined the Mutual Aid Board in 1954 and became chairman the following year He continued in that capacity until 1960

CHAPTER THREE

The First Challenge

> The Mutual Aid Fund is the most important legislation since 1937. This legislation aims to meet some of the problems that are more peculiar to this province that to any other. ... The purpose of the fund is essentially to assist credit unions to avoid getting into serious difficulty and to safeguard the savings of our credit union members. If dissolution of a credit union is necessary and some loss is threatened as far as money is concerned, some assistance to those who are threatened would be available.

These words were used by Barney Arnason, the deputy minister in the Department of Co-operation and Co-operative Development, when he addressed delegates to the Credit Union League of Saskatchewan annual meeting in Saskatoon in July, 1952.

With the government and many credit union leaders in the province convinced of the vital importance of having a central stabilization fund, they moved quickly in 1952 to set in motion the machinery for establishing such a fund. One of the first steps of the League was to notify other co-operative organizations in the province of the plan and seek their support. In the early part of 1952 the plan was discussed with representatives of the Saskatchewan Wheat Pool, Federated Co-operatives Limited, and Co-operative Life Insurance Company.

What sort of fund?

Arnason and his associates in the government, along with League officials, faced several problems in drafting legislation to set up the fund. One question was whether there should be a separate act drafted to provide for the creation of what was to become a totally new entity. Recalling the question years later, Arnason said it was decided that the legislation should take the form of an amendment to the Credit Union Act to show that the new fund was really an extension of existing credit union activities; a further development of the concept of sharing of resources and accepting responsibility for losses for the benefit of the whole.

Perhaps the most important question was, how should the new fund and board be structured and how should they operate? There were virtually no precedents known by the drafters of the legislation. Premier Douglas recalled, from his years as a federal Member of Parliament (1935-44), that there had been a central stabilization fund for chartered banks and that it had provided a guarantee for depositors when the BNA Bank got into difficulties in the 1930s.

In the credit union movement, there was no real experience anywhere in North America of how a stabilization fund could operate.[1] Some attempts had been made. For example, the California Credit Union League had adopted a plan for a stabilization fund in 1950, and CUNA circulated details of it to other leagues. The fund would be created through annual assessments of one-twelfth of one per cent of total assets of each participating credit union. Loans or other benefits could be paid to any credit union in difficulty if it had been paying assessments for at least three years. On liquidation, the fund could make up the losses of members or assist any credit union in danger of insolvency. But participation in the plan was voluntary and trustees of the fund could refuse to admit a credit union, thus limiting the potential extent of the guarantee.

In Quebec, there was also a form of protection for credit union members' equity. The provincial Desjardins federation annually assessed local caisses populaires one tenth of one per cent of total assets as dues. A further two per cent of gross earnings was added to these in the late 1940s. Ten per cent of the total dues collected annually was set aside by the federation as a security fund to assist local caisses populaires in temporary difficulties. The conditions of assistance were at the discretion of the federation.

With limited experience elsewhere to draw upon, Saskatchewan credit union leaders were forced, not for the first time, to rely on their own creative instincts and their own experiences to develop a fund that would meet their particular needs. After considerable deliberation, it was decided that the new fund should be administered by a board that was distinct from the Department, the League and the Credit Society, but which worked in close co-operation with those bodies. Since any credit union could find itself in

difficulties at some time, and since the failure of any credit union with a loss of members' shares and deposits could jeopardize the future development of the entire movement, there was general agreement that the fund should not be voluntary: assessments should be levied on all credit unions. At the same time, the fund would not "cost" anything for credit unions: the amendments would provide that a portion of each credit union's reserve would be invested in the central fund. In effect, it was to be an example of the pooling concept, already well understood in Saskatchewan, being put to a new use.

The amendments incorporating these ideas and setting up the Mutual Aid Fund were approved by the provincial legislature in April and the legislation came into effect on July 1, 1952. At the League's annual meeting a few days later, Arnason explained the purposes of the legislation to delegates and suggested some possible policies for the operation of the new fund.

Getting a consensus

By this time, the idea of a mutual aid fund was accepted by most credit unions in the province and a motion supporting the establishment of the Fund was passed at the 1952 annual meeting of the League. No doubt, one reason that not all credit unions contributed to the voluntary "St. Gregor fund" in 1951 was that they were convinced the Mutual Aid Fund would become a reality within a year, and it could then deal with the St. Gregor problem, as well as those of other credit unions that ran into difficulties.

However, there were still some credit union leaders who felt that when a credit union had difficulties, especially when they were caused by defalcations, the rest of the credit union system was under no obligation to bail it out financially. Perhaps, they argued, increased bond coverage would be more appropriate.

To ensure, therefore, that the new Fund had the widespread support of the credit union movement, even beyond that provided by the League's directors and delegates, it was agreed by the Department and the League that all credit unions would be polled regarding their support for the Fund. To allow them ample time to study the Act amendments before finally deciding on the merits of the Fund, the poll would not be held until the fall of 1952. Unless at least one half of all credit unions with a total membership of at least two thirds of the total provincial membership voted in favor of the plan, it would not be instituted.

A circular explaining the plan, together with a questionnaire, was mailed to each credit union and the results of the poll were conclusive. A total of 79 per cent of all credit unions, with 80 per cent of the total provincial membership, voted in favor of adoption of the plan.[3] So, by early 1953, the way was clear to appoint a board and get the Mutual Aid Fund into operation.

The Mutual Aid Board becomes operational

The Board, as administrator of the Fund, was established by government order-in-council on May 8, 1953, and five members were appointed. The structure of the Board was agreed upon after considerable discussion. One early draft charter prepared by the League would have set up a California-style fund with five trustees elected by delegates at the annual League meeting. A later plan proposed a three-member board with one representative each from the Department of Co-operation, the League and the Credit Society. The final approved structure called for five Board members, three elected by the League (usually two League board members and one other), one elected by the Credit Society and one appointed by the registrar.

The first meeting of the Mutual Aid Board was held May 22, 1953. Attending the meeting were (left to right): J.R. Dunnet of the Attorney General's Department; Mike Eriksen, secretary-treasurer of the Board and managing director of the Credit Union League; Gordon Nielsen, first chairman of the Board, and a representative of the League; Barney Johnson, secretary-manager of the Saskatchewan Co-operative Credit Society; A. Grant Howard, representing the League on the Board; A.C. (Mac) MacLean, vice-chairman of the Board and supervisor of credit union services in the Department of Co-operation and Co-operative Development; Barney Arnason, deputy minister of co-operation and co-operative development; and Ernest Colpron, representing the League on the Board. (Credit: Saskatchewan Archives Board).

An organizational meeting of the Board was held on May 22, 1953, at the office of the registrar, Barney Arnason, in the legislative building. Arnason articulated the feeling of all those present, that they were pioneering in the development of a new and vitally important function of the credit union movement on the continent.

Attending that meeting along with Arnason were the first five members of the Board: Gordon Nielsen of Tisdale, A. Grant Howard of Saskatoon, and Ernest Colpron of Gravelbourg, all representing the League; Barney Johnson, the newly appointed secretary-manager of the Credit Society; and Mac MacLean, representing the registrar of credit unions. Also attending were Mike Eriksen, who had recently replaced Tom Molloy as managing director of the League, and J. R. Dunnet, from the Department of the Attorney General.

An election of officers was held and Nielsen became the first-ever chairman of the Mutual Aid Board. MacLean was elected vice-chairman and it became something of a tradition for the next two decades that the head of the Credit Union Branch was always elected vice-chairman. MacLean and Al Snell, who both held that position, had a wealth of knowledge about the operations and problems of credit unions throughout the province, and they made an enormous contribution to the effective functioning of the Board during its first 20 years. The chairman of the Board was always a representative of the League, until the League ceased to exist in 1970.

Eriksen was elected secretary-treasurer of the Board, and that marked the beginning of an arrangement whereby the League managing director, and later a representative of Credit Union Central, always served as secretary-treasurer. Because of Eriksen's position, it was only logical that the League should provide the limited amount of administrative work necessary for the functioning of the Board and the management of the Fund. The League decided to charge the Board a fee of $25 a month for the secretarial and clerical services it provided. That first simple agreement eventually grew into a management contract under which Credit Union Central provides a wide range of services and the administration fees run to more than $1 million a year.

Assessments of credit unions, as proposed by delegates at the 1951 League annual meeting, were set at five per cent of net income annually, while the total required allocation to credit union reserves, including the Mutual Aid Fund assessment, was not increased above the existing level of 20 per cent of net income.

St. Gregor and Arran

The first major task facing the Mutual Aid Board once it had become operational was to devise some sort of recovery program for the credit unions at St. Gregor and Arran. After the initial shock of the financial losses

had worn off, the majority of members at both credit unions had made a commitment to carry on with the credit unions. Under those circumstances, it was essential to provide them with some support.

At both credit unions, all assets were frozen immediately after the losses had been discovered in 1951. It soon became clear to members that, if they chose to dissolve the credit unions, they would lose all their shares and deposits, because it would be impossible to collect any outstanding loans. Most decided to take a chance and try to get something back. At St. Gregor, men like Bill Rossmann encouraged members to rebuild the shattered credit union. Rossmann, a member of the supervisory committee, told members at the 1951 annual meeting that they could fire him, but he had no intention of resigning.

No elected officials were ousted from office. In fact, one director, Con Plemel, the local Wheat Pool agent, was hired as manager, and he commenced to run the credit union out of his office in the Pool elevator. At Arran, Mike Kinaschuk was appointed manager, and he ran the credit union from his home, along with his insurance business.

Loan collections proved to be difficult, because some borrowers believed that they had no obligation to repay loans to credit unions that had pretty well ceased to function. Government officials helped Plemel and Kinaschuk convince these borrowers otherwise. Money began to flow in,

Con Plemel was appointed manager of St. Gregor Credit Union after it got into serious financial difficulty in 1950 and 1951. Concerns about the situation there led to the establishment of the Mutual Aid Board in 1953.

and it was possible to pay off members' deposits in time. But members kept most of their money in life insured share accounts, and the share capital remained frozen for several years.

Meanwhile, at St. Gregor, one old bachelor came into Con Plemel's office and said he wanted to open an account and deposit $10. Plemel, who was spending long hours trying to collect outstanding loans, was taken aback that anyone would want to deposit money in the credit union at that time, but the man said, "If I put it in, I know it'll stay there."

After numerous consultations about the legal status of new deposits, Al Snell of the Department came up with an acceptable solution: start a second credit union. The old credit union would collect outstanding loans and rebuild the depleted reserves, while the new credit union would offer new share and deposit accounts and loan services. So, in 1952, charters were granted for St. Peter's Credit Union in St. Gregor and Livingstone Credit Union in Arran. In each community, the managers commenced to operate simultaneously with two separate sets of credit union books.

Financial assistance

In 1954, when the Mutual Aid Board stepped in with financial assistance, the credit unions were struggling, without much success, to recover their losses. At the League annual meeting in March, Mutual Aid Board chairman Gordon Nielsen reported a proposal to provide grants-in-aid for 75 per cent of the loss of the members. The balance of the losses would be recovered by the credit unions themselves, or through Board loans.

The delegates, however, defeated that proposal. Another motion proposing combined interest free loans and grants-in-aid was also defeated. A third motion, proposing that any grants-in-aid be postponed for five years, and that interest-free loans be provided immediately, was carried.

The argument for loans rather than grants was based on the notion that the credit unions would then realize that they had a responsibility to work to achieve their own recoveries. The loans would be interest free so the credit unions could use the interest they earned on those funds to build up their reserves more quickly than would otherwise be possible.

In May, the Board approved a motion by Barney Johnson to provide interest-free loans of $14,000 to St. Gregor Credit Union and $29,000 to Arran Credit Union, approximately half of the losses suffered by the two credit unions. One good reason for not making larger loans was that the Fund contained very little money at that time. The 1953 assessment of the Board, based on 1952 credit union earnings, was about $23,000. The 1954 assessment added another $33,000 to the Fund.

Nevertheless, the Board did commit itself to make additional interest-free loans available, up to 100 per cent of the losses, as the Fund grew. Repayment of the Board loans was to be on the basis of all interest collected

on all existing loans and all future loans made by the old credit unions while the arrangement was in effect. The lending activities of the two new credit unions were not affected.

In addition to the loans, the Board agreed to provide the two old credit unions with grants to cover the salaries of their managers and legitimate operating expenses. This meant that, even though most of the earnings were being used to repay the Board loans, there would still be surpluses available to increase the value of members' shares. The credit unions, in turn, agreed to certain restrictions on loaning, withdrawals and general operations.

During the next five years, officials at both St. Gregor and Arran worked hard to rebuild share capital and repay the Mutual Aid Board loans. MacLean and Snell often visited the two communities and provided step-by-step guidance in the complicated affairs of managing two credit unions at the same time.

In 1959, five years after the first loans had been made, the situations at St. Gregor and Arran were reviewed thoroughly. St. Gregor, with the aid of interest-free loans of about $40,000 and operating grants of just under $6,000, had been able to recover more then 50 per cent of its losses and repay about $12,000 on the Mutual Aid Board loan. At Arran, the Mutual Aid Board had provided loans of about $61,000 and operating grants of over $17,000. The credit union had been able to rehabilitate about 35 per cent of its loss and repay some $16,000 to the Board, leaving about $45,000 outstanding.

Grants-in-aid

The Board decided that both credit unions had made praiseworthy efforts to recover from their losses and that it was time to provide new assistance. With the approval of delegates at the 1959 League annual meeting, the Board decided to make grants-in-aid, bringing the share capital in both credit unions up to par value. At St. Gregor, the grant amounted to just over $15,000, bringing the outstanding loan down to $12,769. At Arran, the grant was about $50,000, and the outstanding loan was reduced to about $29,000.

So, in August, 1959, Al Snell announced the good news about the grants-in-aid at general meetings in both St. Gregor and Arran. The atmosphere was far different from what it had been at those tense meetings eight years earlier. "There is no need for handkerchiefs tonight," said John Stratychuk of the Wheat Pool at the Arran meeting.

In both communities, members voted to amalgamate the two credit unions, and in both cases, they retained the names of the original credit unions. The Mutual Aid Board requested each credit union to repay the outstanding loan in five yearly installments, plus interest at 2½ per cent per year on the outstanding balances. Both loans were repaid on schedule in 1964.

Since many members of both credit unions had a large proportion of their life savings in the frozen share accounts, there was enormous relief when the ordeal was over. Those who had chosen to withdraw their money earlier at 50 cents on the dollar were startled in 1959 when they received cheques for the balance of their savings. So, the credit unions could rightfully claim that no one had lost a cent of shares or deposits.

One of the most touching stories was related by Mike Kinaschuk at Arran. An elderly couple had $4,000 in savings at the credit union when its assets were frozen. The wife was seriously ill in hospital and the husband, fearing that she was dying, went to Kinaschuk and demanded his money immediately. Kinaschuk patiently explained that there simply wasn't any money, but the distraught man wouldn't listen. "If my wife dies, I'm going to lay her body on your doorstep," he threatened. His wife recovered shortly after and he came back to apologize to Kinaschuk. Then, in 1959, when the couple received a cheque for $4,000, they decided the money would be safest if it were left in the credit union.

Credit Union Way ended a report on St. Gregor in 1959 with these words. "So a story book ending to a credit union that could have faltered but which, through determination and sacrifice on the part of the members coupled with assistance from the credit union movement through the Mutual Aid Fund, will continue to flourish and serve the community of St. Gregor."

Mike Kinaschuk was appointed manager of Arran Credit Union after it experienced difficulties similar to those at St. Gregor Credit Union at very nearly the same time in 1950-1951.

Both credit unions did flourish. New credit union offices were completed in both communities in 1966. St. Gregor's assets had grown to nearly $6 million by the early 1980s, while Arran, growing more slowly, had passed the $2 million mark. Moreover, new credit unions sprang up in the surrounding areas of both towns and grew more rapidly. Many people, it seems, were waiting to see how the credit union movement would resolve the problems at St. Gregor and Arran before they were willing to put their savings into credit unions.

New policies for new problems

Other than at St. Gregor and Arran, the Mutual Aid Board was required to give very little financial assistance during the 1950s. Several years of crop failures in the Arborfield area led to cash flow problems for the local credit union. Two loans totalling $4,100 were made by the Board in 1954 and 1955 at one per cent interest. Although these loans were eventually repaid, the problems continued for some time.

The movement did have a big scare in the mid-1950s, when it was learned that Sherwood Credit Union in Regina, one of the largest credit unions in Canada, was in difficulty. It had about a half million dollars in bad loans, including one large loan with a trucking firm. The Mutual Aid Board was approached, but it was not in a position to provide assistance. Eventually, verbal guarantees were provided by the provincial government, but they were never required. The Department of Co-operation gave Sherwood approval to write off its bad loans over time, and it was able to do that without reducing dividends, although patronage refunds were suspended. Major losses at Sherwood at that time would have been disastrous for the whole movement in Saskatchewan.

Its early experiences led the Mutual Aid Board to conclude that its assistance policies must be flexible. The Board argued, in its 1958 annual report, that it must have a free hand to grant the form of assistance it felt to be necessary. This would not lead to the Fund being treated as a "glorified Santa Claus", it was added.

Consideration by the Board of an application for assistance from a credit union in financial difficulties would be tied in with a program of self-help on the part of the credit union. The Board's objective would be to maintain the solvency of credit unions, and prevent liquidation wherever possible.

Such assistance would be provided mainly in the form of interest free loans, possibly staged over several years to cover a portion of the loss at one time. But interest could be charged and the rate could be set at the discretion of the Board. It could equal the return on investments with the Credit Society (2½ per cent), or it could be reduced (as at Arborfield).

If the assistance program appeared to be taking too long, the Board policy was to introduce a combination of loans and grants, but still with the

intention of promoting self-help. Grants-in aid alone would be used only where they were needed to encourage a credit union to greater self help efforts or where shareholders and depositors had to be partially reimbursed in case of liquidation.

After nearly a decade of operation, the Board appeared to be functioning successfully. The crises at St. Gregor and Arran had been resolved to everyone's satisfaction and the potential crisis at Sherwood had been averted. The credit union movement in Saskatchewan had reason to believe that it would be able to cope with any financial difficulties that might crop up.

Footnotes

[1] *Credit Union Way*, February, 1952.

[2] *Credit Union Way*, April, 1952, and January-February, 1953. Mutual Aid Board *Annual Report*, 1957.

CHAPTER FOUR

Refining the Fund Concept

As the credit union system entered the 1960s, the Mutual Aid Board could claim that it had successfully cleared the first hurdle in its existence by resolving the financial problems at St. Gregor and Arran. It had developed workable policies to deal with the issues that arose during the 1950s and it had earned the confidence and support of credit union leaders throughout Saskatchewan. Credit unions, in turn, benefitted from an enhanced public reputation as reliable and safe financial institutions, and their growth accelerated during the 1960s.

The Board was able to shift its focus to new issues and adapt and modify its policies to handle new types of problems that arose. Fortunately, there were no major problems that severely tested the resources of the Fund.

The Porter Commission

By the late 1950s and early 1960s, the concept of a stabilization fund for credit unions was gaining acceptance throughout North America. Saskatchewan's Mutual Aid Board, as a pioneer in the field, with nearly a decade of operational experience, provided a model for the development of funds elsewhere.

The Board, along with the rest of the credit union system, received national exposure and extensive public scrutiny for the first time in 1962 when submissions were made to the Royal Commission on Banking and Finance, headed by Chief Justice Dana Porter of Ontario. The Commission in its examination of the credit union systems in Canada, discovered some

Representatives of the Saskatchewan credit union system and financial co-operatives made submissions to the Porter Royal Commission on Banking in 1962. Among them were (left to right) Harold Wagner, general manager of Co-operative Trust Company; Les Tendler, treasurer of Saskatchewan Co-operative Credit Society; Al Charbonneau, managing director of the Credit Union League; Ray Neville, president of the League; Barney Johnson, secretary manager of the Credit Society; and George Munro, president of the Credit Society.

"latent weaknesses" which it identified in its 1964 report: inadequate supervisory and inspection arrangements in some parts of the country; a need to strengthen the protection provided to shareholders and depositors through mutual aid funds; and problems posed by low liquidity in some credit unions and their centrals.

Dealing specifically with mutual aid funds, the Commission made the following recommendation:

> We agree with the views of the national organizations that all locals should be required to belong to a mutual aid fund in order to provide an additional safeguard for their members. As we pointed out earlier, credit unions and caisses populaires differ from other banking institutions accepting funds from the public in that they are restricted to operating locally and cannot diversify their lending risks as easily as other organizations operating over a broader area. They are thus especially vulnerable to severe local difficulties, and the assurance of help from the movements' own mutual aid funds is vital to them and to their members.

Other stabilization funds

At that time, British Columbia was the only province outside of Saskatchewan with a stabilization fund. The Credit Union Reserve Board was established there in 1959, primarily through the efforts of the B.C. Central Credit Union and the B.C. Credit Union League. Participation in the fund was mandatory for all credit unions but, unlike in Saskatchewan, the Reserve Board has always been totally independent of the Central and the League. In 1968, the Provincial Credit Union Share and Deposit Guarantee Fund was created to provide an unlimited guarantee of all members' shares and deposits. The Reserve Board became the regulatory arm of the credit union system and the administrator of the Guarantee Fund.[2]

Ontario had no stabilization fund but, in the late 1950s, the Credit Union League requested a legislative amendment that would permit it to examine any affiliated credit union where the League believed there was cause for concern.

In the United States, many state leagues introduced some form of stabilization fund during the 1950s and several were patterned at least partially on the Saskatchewan model. Al Snell was frequently invited to stabilization conferences in the U.S. to provide advice and to discuss the Saskatchewan experience.

Most of the state programs were operated by the leagues themselves and were financed mainly from portions of league dues that were set aside in separate funds. Participation in most of these programs was voluntary, creating problems when credit unions required assistance but did not participate in a program.

One of the best programs was in Michigan, where the League had set aside $354,000 for its stabilization fund between 1955 and 1959 and assisted some 70 credit unions. In Illinois, the Credit Union Share Insurance Corporation was formed in 1956, with no participation from the League. It too was a voluntary plan and, by 1959, only 620 of the nearly 1,600 credit unions in the state were members.[3]

Snell, after returning from one stabilization conference in New York in 1959, made the rather immodest, but perhaps accurate comment that "we in Saskatchewan have by far the best stabilization program in effect anywhere on this continent and I believe we are the envy of all the others."

Most of the state league programs were modest in scope; they provided no deposit guarantees and they were limited to state-chartered credit unions. A bill was introduced in the U.S. Congress in 1952 to provide for an insurance fund to cover losses in federally chartered credit unions. The fund, to be administered by the director of federal credit unions in the Social Security Administration, would be mandatory for all federal credit unions and would cover losses in shares or deposits up to $2,500 per member. That legislation died and the credit union movement remained

strongly opposed to government controls. As an alternative, the CUNA Stabilization Corporation was set up in 1958 with the objective of bringing all state leagues into its membership and acting as a re-insurer.

Discussions concerning an international stabilization fund were begun and continued throughout the 1960s. The Mutual Aid Board was invited to become a member of CUNA International Stabilization, Inc. in 1965, but declined. Snell returned from one meeting in Washington in 1966 and expressed frustration at the lack of common understanding; most U.S. credit union people, he said, refused to accept the principle of compulsory participation or government participation in stabilization funds.

Meanwhile, the voluntary, league-operated stabilization programs met with little success. Most of their funds never rose above $300,000 and they were unable to cope with the financial crises that developed in later years. CUNA's national program never had more than 30 state members and its liquid assets never rose above $1 million.

The U.S. federal government stepped in with the establishment of a national share insurance fund under the National Credit Union Administration in 1970, and many of the state programs were liquidated after that. By 1982 there were 18 state share insurance corporations; only two had assets of over $20 million.[4] CUNA Stabilization Corporation was dissolved in 1982.

CUNA's international efforts came to be channelled into assisting programs in countries such as Jamaica, New Zealand and Paraguay. Those efforts are being continued by the World Council of Credit Unions.

Growth and transformation of the movement

The credit union movement in Saskatchewan underwent some remarkable changes during the 1960s. The formation of new credit unions was most rapid in the 1940s; it slowed down dramatically in the 1950s, and the number of credit unions began to decline after reaching a peak of 301 in 1965 (See Appendix II).

But growth in total membership and assets did not slow down. Membership grew from 48,000 in 1950 to 137,000 in 1960, and accelerated to 320,000 in 1970. From a marginal adjunct to the financial community, the credit union system had blossomed to include one-third of the entire population of the province by the end of the 1960s. Assets grew even more dramatically — from $12.5 million in 1950 to $88.8 million in 1960 and $407 million in 1970.[5]

The transformation of the system was evident in the growing size and services of many credit unions. In 1950, the average credit union in Saskatchewan had just under 200 members and assets of just over $50,000. By 1960 the average credit union had grown to just under 500 members and $320,000 in assets. In 1970, the average was 1,200 members and $1.5 million in assets.

Among the many new credit union buildings erected throughout Saskatchewan during the 1960s was this one at Arran, where the credit union fully recovered from its problems of a decade earlier.

By the early 1960s, most credit unions were no longer operated by volunteer treasurers working out of Pool elevator offices or cubby holes tucked into the backs of stores. Many credit unions had erected attractive new buildings that differed little from bank branches in appearance. They were being managed by full time employees, including many of those former volunteer treasurers who had gradually taken on more and more responsibilities. Many credit unions had introduced chequing services, new types of deposit accounts and a variety of other services. They were dealing with greatly increased numbers of members and processing volumes of transactions that were increasing astronomically. New more sophisticated management skills were required to cope with the growing scale and complexity of credit union work.

Expanded services

Inevitably not all credit unions were able to keep pace with the growing demands on them. The government had stepped up its program of supports and controls in the early 1950s, when it divided the province into six districts and appointed a resident inspector in each. Supervisory committees were having difficulties keeping on top of the situations in larger credit unions, so the Credit Union Act was amended to permit credit unions of a certain size to employ auditors.

The services of the credit unions' central organizations were expanded too. The Credit Society, which initially shared staff and office facilities with Sherwood Credit Union, greatly increased its central banking services for credit unions and co-operatives under the leadership of Barney Johnson, who was its secretary-manager from 1953 to 1963. Cheque clearing services were introduced at the Society's Regina and Saskatoon offices in the late 1950s. The Credit Society also had a close working relationship with the Mutual Aid Board. The Board maintained more than half of all its investments in Credit Society shares and fixed term deposits and, in the 1960s, it established a line of credit with the Credit Society. In addition, Barney Johnson served as a valued and respected member of the Board for 11 years.

The tremendous growth of credit unions during these years also led to expansion of the services of the Credit Union League. During its first 15 years of existence, the League was run almost singlehandedly by Tom Molloy, who at one time was both its president and managing director. The League began to expand its staff and services rapidly, especially between 1959 and 1965 when G. A. (Al) Charbonneau was its managing director.

The League introduced a field service in the 1950s, providing credit unions with advice and assistance in their organizational and development work, and making service calls to assist in operational matters. The number of field representatives was increased in the 1960s, as the League gradually assumed some of the duties performed by government inspectors in the earlier years.

With the increased need for more skilled credit union personnel, training programs were introduced by the League, some of them in conjunction with the newly formed Western Co-operative College (later renamed Co-operative College of Canada) in Saskatoon. The Mutual Aid Board supported the League's manager trainee and on-the-job employee training programs with grants of $5 000 per year in the early 1960s, and later $10 000 per year. It was, perhaps, one of the first forms of preventive programming in which the Board became involved. The League also introduced an employee emergency replacement program in 1962 and, although the Board felt it did not have the legal powers to provide financial assistance, it did approve of the program as a means of supporting credit union management.

The Development Fund

Another program introduced by the League was its Development Fund. By the early 1960s, most credit union members in the province wanted full-time service, as well as a negotiable order (chequing) system. But the League, according to one report by Charbonneau, estimated that there were some 55 "weak and retarded" credit unions functioning as part-time operations that could not provide service at that level.

Many of those credit unions, it was felt, had the potential to become full service operations if they received some assistance. The League would select and pay a full-time manager to run the credit union until its assets reached $300,000, at which point the credit union was considered to be capable of sustaining a full service operation on its own. Eventually, it would be expected to reimburse the League for the assistance, so the fund could be used to assist another credit union.

In 1963, a management agreement was signed with Kipling Credit Union and the first manager was hired under the program. A year later, after its legislation had been amended, the Mutual Aid Board provided a grant of $20,000 to the Development Fund, enabling the League to expand the program from three to six credit unions. Charbonneau, who in addition to his League responsibilities was also secretary-treasurer of the Mutual Aid Board, kept the Board well informed on the progress of the Development Fund. The Board increased its grants to $60,000 in aggregate in 1966 and $100,000 in 1973.

The program did stimulate development. By 1970, 12 credit unions had received assistance. Their combined membership grew from 4,000 to nearly 12,000; total loans outstanding jumped from $1.3 million to $7.3 million, and member investments rose from $2.4 million to $9 million. Some of the credit unions, such as Spiritwood, became remarkable success stories.[6]

At the same time, there were some problems. Not all credit unions in the program were successful. Fort Credit Union in Fort Qu'Appelle eventually was dissolved. The management contracts were changed to make the managers credit union employees, because credit union boards were not receiving enough guidance. Also, the League was unable to provide competent managers to all the credit unions requesting assistance. That demonstrated the growing need for improved management skills.

Bonding and Insurance

The League became more actively involved in bond coverage as the growth of credit union operations made adequate insurance more important. Fidelity bonds were required by all credit union employees handling money, and the coverage was increased from $15,000 to $25,000 in 1954, with a floater fidelity bond being carried by the League. Nevertheless, after several defalcations, it became clear that the coverage was inadequate and the bonding schedule, based on the size of credit unions, was revised upward several times during the 1950s and 1960s. In 1966, the Mutual Aid Board entered the bonding field when it agreed to pay the premiums for $50,000 of excess fidelity bond coverage for each credit union. Another new feature introduced by insurers was the optional faithful performance bond, available at 30 per cent of the fidelity bond premium.

The other main part of the bonding program was the blanket coverage. The League purchased a master bond and resold the bond to credit unions.

New improved safekeeping equipment had become a high priority for credit unions during the early 1960s.

Blanket coverage included insurance against loss of money or securities through any act committed by any employee (much like fidelity coverage) as well as losses through robbery, burglary, larceny, theft, holdup, damage or destruction while the property was in the credit union premises or in transit, as well as damages to the premises caused by burglary or holdup.

As credit unions began to handle more cash and negotiable securities, burglaries became an increasing problem. Tom Molloy used this graphic description of the situation in the September 1956 issue of *Credit Union Way*: "At this time of the year when many millions of dollars in cash are being distributed to paying agents for the various grain companies throughout the province, burglars like pirates of old are flocking to the richest trade routes. In a recent period of approximately three weeks, three credit union offices were burglarized. At Coronach some $12,000.00 in cash and securities were taken. Dinsmore lost $1,500.00 and Meota $4,900.00."

The growing number of burglaries and a consistently unsatisfactory claims-to-premium ratio led the League to introduce a loss prevention program in 1960. A special committee was set up to work out a premium schedule with the insurers to provide credit unions with incentives to

improve their safekeeping equipment, and it negotiated an arrangement with two companies for the provision of their safes to credit unions at discounted prices.

Many credit unions took advantage of the program by purchasing new safes and upgrading their vaults. In 1964, the Mutual Aid Board stepped in and offered loans at two per cent interest for 10 years to small credit unions that could not afford to purchase new safekeeping equipment. In 1969, the Board purchased six heavy duty safes and rented them to small credit unions at low rates. Both these programs continued until the late 1970s. The results of the loss prevention program were dramatic: the claims-to-premiums ratio for burglaries dropped from 180 per cent in 1963 to one per cent in 1966.[7]

Collection service

Another type of loss that was causing concern to credit unions resulted from bad or uncollectible loans. Saskatchewan credit unions had a good record. Total loans between 1937 and 1963 amounted to $356 million, and the write-off to statutory reserve was only 14½ cents for each $100 loaned, which was the best record in the financial industry at the time.

Nevertheless, there was concern that, through negligence or lack of outside help, some credit unions would suffer heavy losses in uncollectible accounts. There was a large exodus of people from Saskatchewan during the 1950s and 1960s, and a large proportion of the uncollectible loans were to debtors who had left the province. There were also numerous farm and business loans that had been neglected for years and had deteriorated.

As a result, Saskatchewan's credit union system pioneered yet another innovation when the League established the first credit union collection service in Canada in 1961. At the time, there were few collection agencies outside the larger cities. The new agency introduced information, collections letter, skip location, collection services, and an education program for credit unions. While collections had always been something of a sore point for people imbued with the co-operative philosophy, the League's collection agency was hardly a heavy-handed, arm-twisting operation. The first manager, Ed Dressler, and his staff worked in a conscientious and responsible manner, and the agency became self-supporting and highly successful. The Mutual Aid Board normally used Al Snell as liquidator of dissolving credit unions, but in time it began to use the services of the collection agency, too. In 1982, the central collection services were no longer needed and the agency was wound up as part of a reorganization of Central's loan services.

New Mutual Aid Board functions

In addition to the support it provided for new League services during the 1960s, the Board took on other new responsibilities as well. Its powers were broadened by the revised Credit Union Act in 1962 and by subsequent amendments to the Act. Among the legislative changes were provisions permitting the Board to act as liquidator in the dissolution of credit unions and to purchase assets of credit unions in which it had a financial interest. The reasons for these changes can be found in developments in the credit union system. Many credit unions were growing rapidly, but others, including many of those identified as being potential recipients of Development Fund assistance, had languished for years. Often the commitment to persevere and grow in the face of difficulties, which was so evident at Arran and St. Gregor, was lacking. In other cases, the membership bases of small parish and employee credit unions declined and they had no choice but to dissolve. The result was that, although there were still new credit unions being formed, dissolving credit unions eventually outnumbered them and, after 1965, the total number of credit unions began to decline.

The Credit Union League of Saskatchewan greatly expanded its services to credit unions during the early 1960s. The League's senior management included (left to right) Henry Van Kampen, director of education; Al Charbonneau, managing director; Tony Thorson, director of field services; Ed Dressler, manager of the collection agency; and Eldon Anderson, director of public and member relations (back to camera).

The need to give the Board the capability to wind up the financial affairs of dissolving credit unions satisfactorily was obvious by the early 1960s. One list in 1964 showed 15 credit unions where all shares had been paid out, another seven where shares were still being paid out, and four more that were having other financial matters wound up. Al Snell reported to the League annual meeting in 1962 that, to minimize expenses, representatives of the Department of Co-operation were being appointed as liquidators in almost all cases of dissolution. But the extra work placed a burden on Snell's staff, so he strongly supported the idea of the Mutual Aid Board assuming the duties of liquidator in cases where the Board had provided financial assistance to the credit union.

For a time, Snell and his staff continued to handle a heavy workload of liquidation cases, but eventually the League collection agency was able to become more involved. In 1966, the Mutual Aid Board adopted the policy of requesting the registrar's appointment as official liquidator for each credit union to be dissolved. The staff of the League collection agency were then appointed as service employees to administer the liquidations. Fees were negotiated on the basis of a reasonable analysis of the circumstances of each credit union.

The growing number of dissolutions did create some uneasiness within the system. There was a feeling that simply dissolving a credit union that was no longer able to function — paying out its members, and hoping that they would deposit their money in another credit union — was not enough. One attractive alternative to dissolution was amalgamation of credit unions. Some people feared that repeated amalgamations would lead to large regional credit unions that would abandon the strong local identity of smaller credit unions. But the arguments in favor of retaining members within the movement and continuing or even improving services to them through amalgamations, were compelling.

The problem, however, was to make amalgamations easier. The Mutual Aid Board had to come up with policies that would allow the absorbing credit union to pick up assets with a guarantee against losses. By the late 1960s, the Board was evolving an amalgamation policy. At first, it advanced funds to the absorbing credit union and the funds were repaid as the loans of the absorbed credit union were collected. Later, the Board began to guarantee the payment of losses in excess of statutory reserves at the time of amalgamation. After several years, the Board would make a payout for the amount of the loans written off and turn the loans over to the collection agency.

By 1975, the number of dissolutions had dwindled and amalgamations had become more common. Before long, many of the amalgamated credit unions were carrying on as branches of the larger credit unions.

Structural changes

The debate over the merits of amalgamation was part of a larger debate that is probably as old as the co-operative movement — centralization versus decentralization. The debate heated up during the 1960s with the evolution towards fewer and larger credit unions. Noting the large numbers of amalgamations taking place, some people confidently predicted that, by 1980, there would only be some 50 or 60 regional credit unions in Saskatchewan, and they welcomed the prospect as a positive development.

Some went beyond that and advocated a total amalgamation of all credit unions and the central bodies into a single credit union organization for the entire province. Cec Lewis of Assiniboia, who was a member of the Mutual Aid Board during the 1960s, suggested a unitary system similar to the Saskatchewan Wheat Pool, where there was a central organization with regional representation.

At the same time, there was considerable hostility toward these ideas, particularly in small communities where people felt they would lose control of their credit unions. The credit union system in Saskatchewan had been built by people with strong suspicions of centralization, and those suspicions remained deeply rooted.

At the same time as this debate was going on, questions were being asked about the nature and functions of the second-tier organizations. In the late 1960s, discussions focussed on the need to rationalize the operations of these organizations, and proposals were made to amalgamate the League, the Credit Society and Co-operative Trust. Concerning the League and the Credit Society, there was a feeling that, even though they had excellent relations with each other, their functions could begin to overlap and they might begin costly competition in the future. In the case of the Credit Society and Co-op Trust, they were already competing for investment funds from credit unions and relations were becoming strained.

Co-operative Trust acquired a national charter in 1967 and dropped out of the discussions. In fact, the company may never have been seriously interested in amalgamation. The other two organizations supported amalgamation in principle and they began holding joint board meetings with a single executive committee in 1968. Amalgamation was approved at the annual meetings of both organizations in 1969, and it was finalized at the first joint annual meeting in 1970. The new organization retained the name Saskatchewan Co-operative Credit Society and adopted the trade name Credit Union Central of Saskatchewan in 1976.[8]

Whither the Fund?

During the 1960s the purposes and values of most credit union institutions were being questioned. The Mutual Aid Fund was no exception. The Fund had been growing steadily during the 1950s, even after nearly

$90 000 in grants to Arran and St. Gregor were deducted. The interest free loans had resulted in annual deficits for the Fund from 1954 to 1959, but by 1964 the accumulated deficit had been wiped out and surpluses began to build up.

At the end of 1961, the Fund, as represented by accumulated assessments, had passed the half million dollar mark, already quite a substantial sum in the eyes of many credit union people. Moreover, the total assessment that year had been $117 000, and it appeared likely that the Fund was going to grow very rapidly during the 1960s, reaching the level of one per cent of total system assets before long.

The latent suspicion of centralized institutions began to surface again. There were concerns that the Fund had the potential to become so large and powerful that it would become the master, rather than the servant of the movement. To some extent, the discussions centred on finding new uses for the growing Fund. The Act was amended to permit a number of new uses already mentioned: grants from Fund earnings to the League's Development Fund and its management training programs, loans to credit unions for the purchase of safes and vaults, and the purchase of assets from dissolving or amalgamating credit unions.

Other potential new uses were suggested. Some suggestions were implemented by the Mutual Aid Board, others were not. In 1966, one credit union asked the Board for a loan to construct a new building for itself. The Act was later amended to permit the Board to make available funds for new credit union offices under certain circumstances.

Another credit union had its furniture and equipment destroyed in a fire started during a burglary attempt. It was discovered that the loss was not covered under the blanket bond insurance plan, so the credit union asked the Mutual Aid Board for assistance. Although the Board was unable to provide any aid, it did notify the insurance carrier of its dissatisfaction with the ruling.

One credit union involved in an amalgamation asked the Board for a guarantee of any operating loss suffered as a result of the amalgamation. The Board replied that it was only able to guarantee losses on loans in excess of reserves.

A revolving fund?

But, aside from discussion of potential uses for the Mutual Aid Fund, there was a serious debate about the Fund itself. This debate had begun when the Fund was first established and centred on whether the Fund was essentially a part of credit union reserves or whether it was a separate entity. Since assessments were calculated as a portion of the required allocation to statutory reserves, credit unions treated those assessments as part of their reserves. They were carried on the books of credit unions as assets.

There was also some pressure from credit unions to get these funds returned to them. A resolution approved at the League's 1953 annual meeting requested the Mutual Aid Board to consider operating the Fund on a revolving door plan. The Board rejected that idea, pointing out that, when the Fund reached one per cent of total credit union assets, there would be no further assessments. A year later, however, the Board dropped its opposition to the revolving fund idea.

Nevertheless, the legislation made no provision for the return of assessments to credit unions. One exception was that the Board could be dissolved with the support of two-thirds of all credit unions. The Fund would then be dispersed, with each credit union receiving the amount of its accumulated assessments less any assistance it had received from the Fund. Also, if a credit union were to dissolve, its assessment contributions would be refunded.

The issue was revived in 1960 when resolutions at the League's annual meeting suggested that the Mutual Aid Board commence the revolving door plan and also that a dividend or interest on money in the Fund be paid to credit unions. Both resolutions were defeated but, when the Credit Union Act was consolidated and rewritten in 1962, the principle of the revolving door plan was accepted. The Act provided that, once the Fund reached $1

C.A. (Al) Snell, director of the Credit Union Services Branch of the Department of Co-operation and Co-operative Development and a member of the Mutual Aid Board from 1957 to 1973, addresses the annual convention of the Credit Union League in Saskatoon in 1964. Seated (left to right) are: Sylvia Wyatt of the Department of Co-operation; G.A. (Al) Charbonneau, managing director of the League and secretary-treasurer of the Mutual Aid Board from 1959 to 1965; Ray Neville, president of the League; and Harold Braaten, vice president of the League.

million, one year's assessment would be returned to credit unions each year, beginning with an amount equal to the assessment levied in 1953. These refunds were to be placed in reserve accounts by credit unions.

The Board was also authorized to turn over assessments of dissolved credit unions to newly organized credit unions at the same point and composed of generally the same membership. The Board interpreted this to permit the transfer of assessments of an amalgamated credit union to the credit union with which it was being amalgamated.

The other issue raised at the League annual meeting in 1960 was settled in favor of the credit unions, too. An amendment to the Act in 1964 permitted the Board to pay credit unions interest of up to five per cent on their assessment contributions.

Thus, by the mid 1960s, credit unions appeared to have succeeded in clarifying the definition of what the Mutual Aid Fund actually was. It was a portion of their statutory reserves which they were investing in a central fund for their mutual benefit, and which was being returned to them on a revolving basis.

A need for more reserves

However, this arrangement was not acceptable to everyone. The issue was discussed at one League board meeting in 1966. Concerns were expressed about the advisability of revolving assessments in the light of the need for a large reserve. In reply, it was pointed out that the assessments were revolved to forestall agitation from credit unions and, in any case, only small amounts were involved. For example, the 1966 assessment was $400,000, while the refund of the 1954 assessment that year came to only about $37,000. However, it was suggested that, when the refunds reached the $150,000-$200,000 range, the matter should be looked at again.

In fact, the revolving fund was terminated in 1970, long before refunds reached that level. The Mutual Aid Board set up a committee in 1969 to review all its powers, policies and programs, and to suggest possible changes. The review committee was composed of two Board members, Al Snell and Harry Gemmel, the manager of Sherwood Credit Union, and the Board's secretary-treasurer, Baldur Johnson. Les Tendler, who was to become secretary-treasurer in 1970, when he became general manager of the amalgamated League Credit Society, also participated. One recommendation of this committee was that the revolving assessments be terminated and that an interest rate of two per cent be paid to credit unions on accumulated assessments. This recommendation was adopted in 1970.

Another recommendation was related to the method of assessment. A sub-committee of the League's Management Advisory Committee had recommended that the Credit Union Act be amended so that assessments would be a maximum of one-quarter of one per cent of outstanding loans at year-end. However, in the Mutual Aid Board review committee, Al Snell

argued that since changes were being made to the method of calculation of the allocation to statutory reserves — they were to be based on a formula for the determination of loan loss exposure — the assessment should be calculated on a different basis. Since the Fund was designed to provide insurance or protection for credit union shares and deposits, he suggested that assessment should be a maximum of one-fifth of one per cent of shares and deposits. That would continue the Fund's assessment income at the same level as it was at that time.

His recommendation was adopted into the legislation and the new method of assessment was used for the first time in 1970. To cut down on administration, the Board decided to simply debit the accounts of credit unions in the Credit Society for the amount of their assessments. That raised a few hackles. One large credit union questioned the authority of the Board to take that step. One small credit union refused to have the assessment deducted from its account and continued to pay by cheque. The perception of what the Fund was, and what powers the Board had, appeared to be shifting to a more centralized perspective.

The deposit insurance issue

While discussions of the nature and functions of the Mutual Aid Fund were going on, a new issue arose calling into question the adequacy of the Fund in times of major crises. After the financial collapse of two Canadian companies, Atlantic Acceptance and Prudential Finance, in 1966, there was

Baldur Johnson, secretary-treasurer of the Mutual Aid Board from 1965 to 1970, and managing director of the Credit Union League from 1965 to 1968 a public outcry; many people lost the money they had deposited with those institutions.

The federal government hastily drafted and passed legislation in 1967 setting up the Canada Deposit Insurance Corporation. This new Crown corporation was to insure deposits for up to $20,000 in all federally chartered banks, trust and loan companies. In addition, provincially chartered trust and loan companies could contract with CDIC for similar deposit insurance. In the same year, the Quebec government established the Quebec Deposit Insurance Board to provide the same insurance in that province. The two bodies worked out an arrangement whereby the QDIB would insure all deposits within Quebec and CDIC would insure all deposits in qualifying institutions in the rest of Canada.

While the Canadian legislation seemed to be almost a spur-of-the-moment response to an emotional issue, the deposit insurance issue was not new. The Federal Deposit Insurance Corporation had been created in the United States in 1933 to come to grips with the massive numbers of bank failures there. Bank closures averaged 2,277 per year in 1930-1933, reaching a peak of 4,000 in 1933. Not only were many people losing their savings, but the closures were reducing the money supply. The FDIC was intended to protect the money supply as much as anything else.

Bank failures dropped sharply after the FDIC became operational. They averaged 43 per year between 1934 and 1942, and dropped to four per year between 1943 and 1980. Deposits were initially insured for $2,500. The limits were increased several times, reaching $15,000 in 1966, $20,000 in 1969, and $100,000 in 1980.[7]

A separate deposit insurance fund was set up for U.S. savings and loan associations in the 1930s as well. A fund for credit unions, providing the same level of deposit insurance coverage, was set up in 1970.

The issue had been discussed periodically in Canada, but it was generally felt that chartered banks, with their massive branch systems and spread of investment and loan risks, were not so vulnerable to failure. Only one Canadian bank had actually collapsed, resulting in a loss of deposits. It was primarily the potential failure of other trust and loan companies that triggered the 1967 legislation.

Should credit unions be included?

The credit union system became concerned about whether credit unions should be protected by deposit insurance, too. In a study of the issue in 1967, Norm Bromberger, then head of the Credit Union Research Council in Saskatchewan, wrote that the Mutual Aid Board acted in the capacity of a deposit insurance corporation. It maintained liquidity by becoming a lender of last resort, and it acted as a dissolution agent for failed credit unions.

However, he pointed out, the Fund had only limited resources to carry out this function. If, for example, many farmers drew heavily on credit unions at the same time, it could create problems. He added:

> This sort of problem for one or two credit unions within the province could be solved by pooling credit union resources to meet just this sort of emergency. However, if it were to become particularly widespread, even though the loan and investment assets held by credit unions were completely sound, the excess cash withdrawals could place them in very serious financial difficulty. The right to draw on funds from outside the credit unions in times of distress would certainly reduce if not remove the danger of such problems.[19]

The Mutual Aid Board also concluded that some form of additional protection might be needed. The Credit Union Act did not specify any particular deposit guarantee other than "assisting in payment of any losses suffered by members of credit unions in liquidation." In certain extreme circumstances, such assistance might turn out to be limited.

In 1966 the Board asked Co-operative Insurance Services (CIS) to look into the possibility of setting up a deposit insurance agency. In 1967, it asked the League to request an amendment to the Credit Union Act, enabling the Board to act as an agent for CDIC when credit unions were permitted to participate in the program. At the same time, the research council was asked to carry out its study.

British Columbia's credit union system set up a share and deposit guarantee fund in 1968, with an unlimited guarantee, but it felt it needed backup credit or insurance. Insurance companies were not interested in providing coverage, since they could not obtain sufficient re-insurance facilities to underwrite such a large risk.

Saskatchewan officials contacted their counterparts in British Columbia to discuss the issue. The consensus seemed to be that CDIC should provide the backup insurance. The Porter Commission had recommended in 1964 that credit union mutual aid funds should be permitted to join any general system of deposit insurance that might be adopted in Canada.

Bromberger, in his report, envisaged the Mutual Aid Board handling dissolutions only as an agent of the CDIC and becoming more of a bad loan reserve. While there was a disadvantage in relinquishing control to an outside agency, this might be weighed against the psychological value of CDIC support. He pointed out, "The backing of the federal government implied in deposit insurance could certainly increase the confidence of members and/or non members in credit unions. Confidence is a key factor in the operation of any financial intermediary."[20]

Even though the Quebec deposit insurance plan included caisses populaires and credit unions there, the credit union system in the rest of Canada had little success in dealing with the federal government on this

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G. Gingras (centre), president of the Canada Deposit Insurance Corporation, chats with Harold Braaten (left), president of Saskatchewan Co-operative Credit Society, and Norm Bromberger, general manager of the Credit Society, during a visit to Regina in 1975.

issue. Federal Finance Minister Mitchell Sharp said credit unions were excluded from possible membership in CDIC for several reasons: they were not public deposit institutions, since they accepted deposits only from members within the bond of association; they were wholly under provincial jurisdiction; they already had deposit insurance through their mutual aid funds; and they were too small to affect the financial system.

None of these reasons were acceptable to credit union system leaders. As Bromberger noted, credit union shares were more like savings than risk equity; provincial trust and loan companies were given access to CDIC; credit unions were being expected to protect themselves while other financial institutions were backed by the government; and trust and loan companies were small, too.

Lender of last resort

In 1968, an amendment to the Credit Union Act was passed permitting the Mutual Aid Board to act as agent for CDIC, but little headway was made in discussions with the federal government. Eventually, emphasis shifted away from full deposit insurance for credit union members to a lender-of last resort facility for the Mutual Aid Board. Progress was made on this issue and, in 1973, the federal Cooperative Credit Associations Act was amended to permit provincial centrals and stabilization funds to have a lender of last resort through CDIC. Richard Humphreys, the federal superintendent of insurance and a long time friend of the credit union movement, was instrumental in getting the measure approved.

In 1974, the Credit Society and the Mutual Aid Board became the first provincial credit union institutions to receive approval from CDIC for the lender-of last resort facility. The Reserve Board in British Columbia and the Stabilization Corporation in Alberta later received approved status.

Under the agreement, CDIC would provide a short term loan — not exceeding six months — in the event of a liquidity shortage, if it were satisfied that no funds were available elsewhere. The loan would be at an interest rate higher than the market rate and a number of very onerous conditions were attached. It was not an attractive source of funds, and would certainly be used only as a last resort, something G. Gingras, the president of CDIC, emphasized when he paid a visit to the Credit Society in 1975.

In 1977, provincial legislation was amended to provide explicitly an unlimited guarantee on all credit union shares and deposits and, in a related move, the powers of the Mutual Aid Board were increased substantially. Interest in federal deposit insurance continued to wane.

In 1982, there was a brief revival of interest in the issue, but unofficial contacts with federal officials showed that the federal position on deposit insurance for credit unions had not changed much in 15 years. The Mutual Aid Board was reaffirmed in its conviction that the advantages of federal deposit insurance were not worth the price. The Mutual Aid Fund not only offered a much more comprehensive deposit guarantee than the CDIC, but the Board also had very effective preventive and rehabilitative programs not available through CDIC. Moreover, through the Board, the credit union system was able to retain a degree of self-regulation that would not be possible with CDIC protection. Existing deposit protection measures were preferable in every way. The issue was not pursued further.

What the deposit insurance issue did in the early 1970s, though, was highlight the need for changes that would strengthen the capability of the Mutual Aid Fund to provide a full deposit guarantee.

Footnotes

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[2] Credit Union Reserve Board *Annual Report* 1981

[3] Report by C. A. Snell to the Mutual Aid Board, 1959

[4] International Share and Deposit Guaranty Association, *1982 Yearbook State Share Insurance*

[5] Department of Co-operation and Co-operative Development, *Province of Saskatchewan.*

[6] Saskatchewan Co-operative Credit Society *Annual Report* 1970; The story of the rejuvenation of Spiritwood Credit Union was told in *Credit Union Way* October 1965, p. 6-7

[7] *Credit Union Way* August, 1966, p. 2

[8] See Christine Purden, *Agents for Change Credit Unions in Saskatchewan* (Regina. Saskatchewan Co-operative Credit Society Ltd 1980) p 145-154

[9] *FDIC Symbol of Confidence* (Washington Federal Deposit Insurance Corporation, 1980).

[10] Norman Bromberger *Deposit Insurance for Saskatchewan Credit Unions A Study* (Regina. Credit Union Research Council, April, 1968), p. 10

[11] Bromberger *Deposit Insurance for Saskatchewan Credit Unions*, p. 9

CHAPTER FIVE

Expanding the Role of the Mutual Aid Board

Although the development of the Mutual Aid Board was affected by changes taking place within the credit union system and by the attitudes of credit union leaders towards it during the 1960s, the concept of the Fund was still not entirely clear by the end of the decade. For a time, it appeared that the Fund would become little more than a central pool containing a portion of credit union reserve funds, with severe limitations placed on growth in its size and powers.

However, any fears on the part of credit unions that the Fund might grow into an uncontrollable monster were balanced by another fear. This was a concern that, in a rapidly growing credit union system, there might be no adequate mechanisms to cope with future serious credit union financial problems or, even more importantly, to attempt to head off problems before they became serious threats. So, the Fund continued to grow after it reached the $1 million goal in 1964, and the Board continued to take on new functions at the same time that its purpose and role were being debated.

By the early 1970s, it was evident that the credit union system would have to rely primarily on its own resources to provide deposit insurance, something that was now expected of all financial institutions in order to maintain public confidence. At the same time, other issues arose which played an important part in expanding and substantially clarifying the role of the Board by the late 1970s. Like the deposit insurance issue, these issues involved the relationship between the credit union system and government.

The taxation issue

This issue, which brought the credit union system into conflict with the federal government, resulted in a large-scale restructuring of the Fund during the 1970s. The issue of whether credit unions should be taxed was not new. In 1944, a federal royal commission on co-operatives, which included Barney Arnason as one of its commissioners, studied the issue of taxation under the Income War Tax Act.

The royal commission report in 1945 supported the credit union system's position that credit unions were essentially different in purpose, ownership, and operation from privately owned corporations, and that their net earnings were not profits but savings generated on behalf of members. The federal government agreed to maintain the existing tax exemption and extended it to include credit union centrals as well.[1]

The issue came up again in the 1960s during the hearings of the Carter Royal Commission on Taxation. The credit union system once again made submissions urging continuation of its tax exempt status. But, by the 1960s, the credit union system had grown much larger and more visible to the general public. Private financial interests were growing alarmed by the rapid growth of credit unions as a new form of competition, and they were complaining that tax exemptions were unjustified because they gave credit unions an unfair competitive advantage. A group called the "Equitable Income Tax Foundation" mounted a public campaign to pressure the government to remove all tax exemptions for credit unions.

The Carter Commission report in 1967 recommended a removal of tax exemptions and, despite objections from the credit union system, the recommendations were incorporated into a federal government white paper on tax reform in 1969, and into draft legislation tabled in 1971.[2]

The credit union system saw the new legislation as undermining the basic concept of co-operation. Leaders organized a national protest against the legislation. Lengthy negotiations resulted in amendments to preserve the integrity of credit unions as co-operative organizations, but in 1972, credit unions became taxable as Canadian corporations.[3]

Prior to the passage of the new Income Tax Act in 1972, there was considerable speculation about the Act's possible impact on the Mutual Aid Fund. The ensuing debate among credit union officials helped to bring the structure, role and functions of the Fund and Board into clearer focus.

For example, it was argued that Fund assessments might be taxed at the credit union, so assessments should be shown as expense items and deleted from credit union balance sheets. Also, the two per cent interest paid on investments in the Fund should be discontinued, and offset by a reduction in assessment. These recommendations were later adopted, thus making it clear that the Fund was not owned by credit unions.

After the Income Tax Act became law, it took almost six months for credit union officials to obtain a ruling on its application to stabilization

Joe Dierker, legal counsel for the Mutual Aid Board and the Credit Society, explains the implications of the Income Tax Act at a meeting in the early 1970s. Seated behind him is John Barr of the Credit Society.

funds. During that time, the Department of National Revenue chose to examine one fund, the Mutual Aid Fund, in depth. The opinion received in early 1973 came as a shock: the Mutual Aid Board was a body corporate and should calculate income taxes as a Canadian private corporation. Credit unions could deduct the Fund assessments as expenses for tax purposes, but the Fund would have to pay tax at an effective rate of about 50 per cent on both net earnings from investments and on assessments from credit unions. Not only that, but the taxes could be retroactive to the inception of the Board. With the potential for tax penalties and interest charges, the Fund could be seriously depleted.

The Board responded in two ways. Together with the other three stabilization funds in Western Canada, it filed a tax return under a special section of the Income Tax Act as a non-profit organization exempt from tax. Also, acting on behalf of all other stabilization funds in Canada, the Board launched a strong appeal to federal Finance Minister John Turner. It argued that the taxes would have dire implications for the Fund, for Saskatchewan credit unions and, ultimately, for the economy of the province. At the same time, various alternatives were being considered to reduce the Fund's taxable income. For example, grants could be made to cover non-capital operating losses of credit unions carried forward, arising because of bad loans. In addition, assessment could be reduced.

To have tax-free status, the Board felt that it must ensure that it remained a completely separate entity from the Credit Society. But it was also felt that the Fund must be developed in close conjunction with the Credit Society to avoid what were perceived as "political problems" in the credit union systems of other provinces. The result was a more formal arrangement of the relationship between the Board and the Credit Society. In 1972, the Mutual Aid Board agreed to a proposal by the Credit Society that administrative fees paid to the Society should reflect the actual cost of providing these services to the Board. Between 1972 and 1973, the management fee paid by the Board went up from a nominal $3,500 to $200,000, which was far more representative of actual costs. In 1974, to maintain a clear record for tax purposes, the Board asked its legal counsel to draw up a management agreement between the Board and the Credit Society.

In 1974, a federal government order-in-council established that stabilization funds would remain tax free until January 1, 1975. After that date, assessments and any grants to credit unions paid out of assessments would be non-taxable. Earnings of stabilization funds, less expenses, would be segregated from assessments and subject to income tax at corporate rates.

The stabilization funds opposed the proposed agreement and they appointed a committee to meet federal officials in August, 1974. They restated their original position that stabilization funds should have tax free status. After some negotiations, they modified their position, asking that expenses for preventive work — which included a wide range of services — should be deductible, and that investment income should be tax free to avoid double taxation.

When the taxation actually came into effect in 1975, the tax bite was modest. The Fund was divided into a tax-free assessment fund, and an income fund taxable at 25 per cent, not the corporate rate of 50 per cent. Most relevant operating expenses, including costs of preventive work, could be written off from the income segment.[4]

At about the same time as the new tax status was coming into effect, the Board met with representatives of the Department of Co-operation to discuss legislative changes that would spell out the powers of the Board more clearly. The changes were necessary both because of the tax position of the Board and because of its involvement with CDIC as lender of last resort. The legislative amendments, when they were passed in 1977, marked the culmination of the process of expanding and clarifying the role of the Fund.

Relations with the provincial government

The federal government generally tended to be seen as somewhat remote from the credit union system, even though some legislation, such as the Income Tax Act, had an important impact on the structure and operations of the credit union system. The provincial government was seen very differently. From the beginning, it had played a very active role in promoting and developing the credit union system in Saskatchewan. Barney Arnason, a lifelong civil servant, was one of the fathers of the credit union system in the province. Mac MacLean and Al Snell, two other long time civil servants, played an enormous part in the development of the system during its first three decades. In the early years, the League, without any full time staff operated out of the offices of the Department of Co-operation.

Although this close and rather unique relationship between the government and the credit union system was beneficial to the system during its formative years, there was a recognition that it could not continue in the same way. Tom Molloy, who later became the League's first full-time

By the early 1970s the credit union system was actively involved in dealings with the federal government. This delegation from the Credit Union Central of Saskatchewan board of directors attended a government affairs conference in Ottawa in 1976.

managing director, wrote in 1949: "In these provinces and states where too much dependence is placed upon governmental or other co-operative organizations, the movement tends to degenerate and a large volume of self-reliance and ability to meet local conditions on the part of local credit unions is destroyed."[5] Arnason agreed with the need for the movement to develop the capability to manage its own affairs.

In fact, that did happen. During the late 1950s and early 1960s, the system, through its centrals, had assumed responsibility for promotion, development, and education. Later, the centrals also took responsibility for policy guidance and operational advice. League managing director Baldur Johnson explained some of the reasons in 19[illegible]: the tremendous growth of credit unions had not been matched by increased resources in the government department, and there was a conscious determination on the part of credit unions to become more self-sufficient.[6]

This transfer of responsibilities was carried out amidst continuing close and friendly relations between the provincial government and the system until 1967, when Arnason retired. His replacement as deputy minister and registrar was Wilf Gardiner, a political appointee, and the relationship between the Department and the credit union system became strained, especially between 1967 and 1971.

One issue involving the Mutual Aid Board demonstrated the strains. In 1968, the Department announced that it would begin to charge inspection fees, and credit unions were outraged. Even though the Minister of Co-operation explained that the fees covered only 30 per cent of the cost of inspections, that provision for them was made in the original legislation, and that 40 other provinces and states assessed inspection fees, credit union leaders were dissatisfied. They argued that the quality of inspections was poor and that Department inspectors were intruding on the responsibilities of the centrals' field staff. In some credit unions, it was made clear that Department representatives were not welcome. There was talk of the credit union system establishing its own auditing service.

Eventually, it was agreed that the Mutual Aid Board would pay the 1968 fees, totalling nearly $50 000, and they would be shown in credit union books as grants from the Board offset by the payment of fees. Beginning in 1969, however, credit unions would be required to pay the fees themselves. The fees were dropped in 1972, following the election of a new government.

New powers

With a major revision of the Credit Union Act under way during the early 1970s, officials of both the Department of Co-operation and the credit union system agreed that special attention would have to be given to the section of the Act covering the Mutual Aid Board. Many credit unions experiencing financial difficulties were considering amalgamations and

they were requesting assistance from the Board. A thorough study was made of the British Columbia Credit Union Act and the powers of the Credit Union Reserve Board in that province, when changes were made in Saskatchewan legislation increasing the powers of the Mutual Aid Board.

The proposed changes were not welcomed by everyone, however. The draft legislation was explained to credit union officials at a series of district meetings in 1970. While the overall intent of the legislation was accepted in most districts, concerns were expressed that, for example, centralization would be forced on unwilling credit unions and that the powers of the Mutual Aid Board would be too broad. Assistance from the Board was certainly welcome, but there was reluctance to accept the notion that the Board would need some "teeth" to make its assistance effective, as well as to prevent credit unions from getting into difficulties.

By 1972, there appeared to be a general consensus within the system that it was necessary for the Board to be strengthened. The Board had become almost a totally new entity. The termination of the revolving fund plan and interest paid on credit union assessments, as well as the removal of assessments from credit union balance sheets, had in effect ended credit union "ownership" of the Fund. At the same time, the Board had acquired greatly expanded powers to intervene in the affairs of credit unions. It had become a more independent agency capable of playing a much more significant role in the credit union system. Yet it was still subject to the direction of the system by virtue of the fact that three of the five Board members would be from the system, and management would continue to be provided by the staff of the Credit Society.

The powers of the Board were expanded in six areas. There was a broad expansion of power reflected in the section permitting the Board to provide preventive services necessary to avert financial losses to credit union members. The preventive services were not defined specifically, it being assumed that they would be all inclusive.

The Act also permitted the Board to establish a wide range of insurance programs, including fire insurance, bonding of employees, insurance against burglary and theft, deposit insurance, and public liability insurance; the Board could make any such program compulsory. In earlier years, the League had assumed responsibility for certain insurance programs.

Under a third new provision, the Board was allowed to establish a Central Credit Committee responsible for considering certain loans referred to it by credit unions. This was an attempt to establish some controls over lending practices, which were the causes of many credit union financial difficulties.

Perhaps the most important new section of the Act gave the Board the power to put credit unions under its supervision if they were conducting their affairs in a manner that threatened to impair the security of their members.

Les Fendler, secretary-treasurer of the Mutual Aid Board from 1970 to 1972, and general manager of the Saskatchewan Co-operative Credit Society from 1963 to 1972. In 1979, he became a member of the Mutual Aid Board.

A related, and somewhat controversial, provision empowered the Board to inspect and administer credit unions under supervision if they did not correct any practices that were likely to contribute to the unsound conduct of their affairs. At the 1970 district meetings, there had been some reservations expressed about the Board being given the power to remove a credit union manager.

The sixth new provision was a further removal of limitations on the size of the Fund that had existed in earlier years. It permitted the Board to provide for an additional assessment from credit unions if the capital of the Fund was about to be impaired.

The revised Act represented an important shift toward increased self-regulation by the credit union system. For example, the registrar already had the power to appoint an administrator where such action was justified by the financial condition of a credit union. Under the new legislation, the Mutual Aid Board could request that the registrar appoint it as administrator. In other words the Board, rather than the government would now determine when a credit union should come under administration. Another example of this shift was the power of the registrar to excuse compliance with requirements for allocation to statutory reserves. Where a credit union was subject to supervision by the Mutual Aid Board, the revised Act permitted the Board to exercise this power in place of the registrar.

Defining roles

By the late 1960s, it had become clear to many people that something would have to be done to sort out the roles of the various bodies dealing with credit unions. The growing strains in the relationship between the government and the credit union system were accentuated by the fact that the credit union system wanted a greater degree of self-regulation. Meanwhile, not everyone in the provincial Liberal government was convinced that there should even be a Department of Co-operation. The general consensus in the credit union system seemed to be that the Department should continue, but that its role should be defined more clearly.

At the same time, there was a certain amount of confusion about the roles of credit union organizations. Some of the potential problems in establishing roles and responsibilities were resolved when the League and Society amalgamated. But there was still the Mutual Aid Board, which stood somewhere between the new central and the government; its responsibilities were not entirely clear either.

The debate on roles, which got its first full airing at district credit union meetings in 1967, led to the establishment in 1971 of a joint committee with representatives from the Credit Society, the Department of Co-operation and the Mutual Aid Board. Chaired by Credit Society vice president Chris Hansen, the Role Committee, as it came to be called, was given the task of carrying out a thorough study of the jobs to be done, who should do them and the costs involved.

The committee prepared detailed lists of all the existing responsibilities of the government, of auditors, of the Mutual Aid Board, and of the Credit Society. It also outlined how responsibilities should be divided up in future.

The work of the committee formed some guidelines for the revision of the Credit Union Act. The primary role of the Mutual Aid Board would be to provide financial assistance and supervision to credit unions and, if necessary, place credit unions under direct administration of the Board. In relation to the Board, the Department was responsible, in conjunction with the interested groups, for setting down minimum audit standards for credit unions, and for inspecting and, if necessary, referring credit unions to the Board for supervision. The Credit Society was responsible for assistance to the Board in the areas of administration and supervision of these credit unions, and for the development and implementation of preventive programs.[3]

In 1972, following the election of a New Democratic Party government, Premier Allan Blakeney told a Credit Society annual meeting that the Department of Co-operation had been de-emphasized by government in recent years, and that its role needed redefining. He later appointed a four-member committee, headed by Chris Hansen, to advise him on co-operative matters. The committee was given the full powers of a commission to conduct hearings. In 1973, the commission completed a report, generally referred to as the Hansen Report, which urged a strong government commitment to co-operative development, and recommended the establishment of a co-operative advisory council and the reorganization of the Department of Co-operation.

Later in 1973, Harry Gemmel, the newly appointed deputy minister of co-operation, told the Credit Society board that the Department would in future emphasize development, information, education, and research. It would continue, but de-emphasize, credit union inspection and supervisory activities, thus creating a void that must be filled.

Norm Bromberger, who became general manager of the Credit Society and secretary-treasurer of the Mutual Aid Board in 1973, was also forming a view of how the relationship between the Board and the government should be developing. In February, 1974, he reported to the Mutual Aid Board:

> By offsetting losses on bad loans, our fund protects the deposits of the members (public) not only through direct pay out but through all kinds of remedial action. It seems to me that the government position in this case, as it seems to be developing in this province, is to insure that the public is protected. This does not necessarily mean active involvement in the operations of the fund. I am suggesting that the legislation should spell out the broad guidelines for action of our Mutual Aid Fund and the Mutual Aid Fund should then, within those guidelines, insure the stability of credit union deposits in Saskatchewan. This means that the role of the Mutual Aid Fund and Board is complementary to that of the provincial government.

At a meeting in 1974 between Bromberger and Bill Baumgartner, who had just been appointed deputy minister, a new liaison committee was

proposed to deal with all issues, including controversial ones, involving the government and the credit union system. It was suggested by Bromberger that the committee include two Credit Society staff members, as well as credit union management and elected officials of the Credit Society and the Mutual Aid Board.

Role task force

The liaison committee began to meet early in 1975 and it discussed changes to legislation affecting the Mutual Aid Board. In December, 1975 a four-member task force was set up to work on the definition of roles between the Department and the Board. The committee, which included Paul Dosch and Ed Cunningham of the Credit Society as Board representatives, was also asked to establish standard procedures for reporting and monitoring, and actions required relevant to credit unions operating in an unsound manner.

In 1976, the Minister of Co-operation, Ned Shillington, told the liaison committee that growth of the Department was being constrained by budget limitations. He suggested that the Mutual Aid Board take over some inspection activities, although final inspection authority would remain with the Department. Four more members, including John Barr of Central and Vic Keep of Assiniboia Credit Union, were added to the task force, and it was given responsibility for studying and reporting on the future role of the Mutual Aid Board, the Department, and commercial auditors regarding audits, examinations, and inspections.

The task force concluded its meetings and indicated that responsibility for examinations should be delegated to the Board. It prepared the following motion: "That, as the Mutual Aid Board provides an unlimited guarantee of share savings and deposits in credit unions, it is essential that preventive measures be initiated to minimize claims against the Fund. The monitoring, examining, regulating and the establishing of a comprehensive reporting system by and for the credit union system will provide basic public protection and aid in insuring sound credit union operations."[9] That statement neatly summarized the goals towards which the Board was moving. Within the next five years those goals were achieved.

Chris Hansen, who had become president of Central, took the recommendations of the task force to Premier Blakeney and discussed amendments to the Credit Union Act, and the implications to the credit union system of phasing in the examination and inspection functions. In December, 1976, the liaison committee set up a special committee to examine and recommend the roles of the Department, the Board, Central, external auditors, and the bond carrier. The Mutual Aid Board agreed in principle to the changes and appointed John Barr to develop a detailed program for it by March, 1977.

Chris Hansen, former president of Credit Union Central of Saskatchewan and chairman of the Mutual Aid Board from 1975 to 1979

The amendments were passed by the legislative assembly in 1977, marking, as Bromberger put it in a letter to credit unions, a climax to 20 years of discussion about the respective roles of the government, Central, and the Mutual Aid Board. It would still take some time to implement the new roles fully, he added. But, contrary to a generally held belief, the roles had been changing gradually for several years. He pointed out that, with the 1977 legislative amendments, the roles were clearly stated for the first time.

Shaping policies and programs

While negotiations between the credit union system leaders and the federal and provincial governments were making it possible to develop a new, more effective Mutual Aid Board with expanded powers, the task of developing new policies and putting them into action remained to be done.

The revised Credit Union Act in 1972 stated the overall purpose of the Board — protection and stabilization of credit unions in financial difficulties and provision of preventive services — but no guidance was given for the carrying out of its functions. As Bromberger pointed out in 1973, the Board had no established aims, objectives or policies to assist it in forming a consistent base for dealing with credit unions under the powers given to it. If the Fund was in fact providing an unlimited guarantee of savings and deposits through the process of protecting itself from losses, it would have to take a much more active role.

In December, 1973, the Mutual Aid Board held a special meeting to develop aims and objectives. John Barr and Dale Hillmer of the Credit Society staff, who were handling most of the Board's operational duties, were given the responsibility to draft policy guidelines. The proposed objectives were that the Board should work with government and audit firms to carry out effective audits, and follow up on problem areas uncovered by audits, develop procedures for supervision and administration of credit unions, and develop more effective asset management procedures for assisting in credit union amalgamations so losses would be avoided.

The FDIC model

The example of British Columbia's Credit Union Reserve Board was used extensively in the development of the 1972 legislative amendments affecting the Fund and in the subsequent creation of Board policies. In addition, the Federal Deposit Insurance Corporation in the United States provided a model for the formation of policies and programs. Board officials travelled to Washington, D.C. on several occasions to study FDIC operations.

Deposit insurance through the FDIC is required by law for all national banks, most state banks, and trust companies. Included in the coverage are the shares of mutual savings banks, which are somewhat similar to credit unions.

The FDIC has the power to inspect and examine all insured banks, although it concentrates on state-chartered banks not in the Federal Reserve System. Each bank is examined at least every 18 months, and banks with financial problems are examined more often. The examiners provide advice to the banks, and the FDIC can order a bank to desist from any unsafe or unsound practices. All insured banks also submit quarterly

reports which are analyzed and form an essential part of the FDIC's monitoring system.

The FDIC provides several forms of assistance. It can make loans, purchase assets, or deposit funds in an insured bank in danger of closing. If a bank does fail, the FDIC acts as receiver and may arrange for a merger with a healthy bank. It arranges a "purchase and assumption" transaction in which the healthy bank takes over many of the assets and assumes the deposits of the failed bank. The FDIC assumes unwanted assets, such as bad loans and investments, and liquidates them. If a deposit payoff is required, it is made immediately, up to the insurance limit. Amounts in excess of the limit are treated like any other debt of the bank. The FDIC can also organize a "deposit insurance national bank" to supply limited services on a temporary basis to a community that has lost its only bank facility.

The FDIC's liquidation operations are an important aspect of the protection of the money supply. A large staff works at turning bad loans and investments, bank buildings and equipment, and security from defaulted loans into cash. Between 1934 and 1979, disbursements by the FDIC totalled $5.2 billion, while recoveries from the liquidation of failed bank assets totalled $4.9 billion.

The Insurance Fund was initiated with capital provided by the U.S. Treasury and the Federal Reserve Banks. This capital was retired by 1948 and, since then, the fund has been built through assessments on insured banks and interest income. In 1980, the fund totalled $10.8 billion, which was 1.15 per cent of estimated insured deposits. The FDIC can also borrow up to $3 billion from the U.S. Treasury in an emergency. The annual assessment rate is one-twelfth of one per cent of average total deposits, but the effective net assessment rate has normally been less than half of that amount.[9]

The Mutual Aid Board adopted some of the programs of the FDIC, but the Board's role, as defined in the 1972 legislation, was intended to be somewhat different from that of the FDIC. It was committed not only to protecting members' deposits, but also to supporting and ensuring the survival of the credit unions themselves, if at all possible.

Rehabilitative functions

In its attempts to nurse credit unions with financial difficulties back to health, the Mutual Aid Board had been empowered since 1953 to provide financial assistance. Through its experience with the credit unions at Arran and St. Gregor during the 1950s, the Board had developed the policy of providing interest-free or low interest loans to credit unions. Outright grants were only made in certain circumstances.

In the early 1970s, concern about the effects of taxation on the Fund led to questions being asked about whether the interest free loan policy should be continued. Some Board members felt these loans should be replaced by

advances to write off bad loans. These would be set up in the Board's books as payables, depending on the government's interpretation of the Income Tax Act. It was also believed that taking large bad loans off the hands of credit union managers might relieve some of the pressure on them.

In 1974, the Board decided to discontinue interest-free advances, and it adopted a policy of guaranteeing operational losses (capitalized expenses) of credit unions arising from bad loans. However, a year later, after taxation of stabilization funds was introduced, it became clear that interest-free loans could be made, and a new policy was developed. The loans would be made to credit unions located in potentially viable communities, if the capital of members was impaired and if amalgamation or dissolution of the credit union were not possible. The credit union would be placed under supervision or management contract, all purchase and disposition of assets would have to be approved by the Board, and all rates charged or paid by the credit union would have to be approved by the Board. Repayment would be on a five-year term, beginning not more than two years after the date of the loan.[14]

The loans were used to help a number of credit unions recover from difficulties. In 1974, there were seven outstanding loans for about $1.1 million. In 1978, there were loans totalling about $600 000 to five credit unions. The policy has continued to be used effectively, allowing credit unions to earn the full amount of interest on the borrowed funds while they correct the problems facing them.

Supervision and administration

The powers of supervision and administration were introduced in 1972. According to the Credit Union Act, a credit union would be placed under supervision by the Mutual Aid Board if it was unable to pay a dividend unless indulgence was granted regarding its reserves covering loss exposure; if the amount in statutory reserves after deducting loss exposure was less than one per cent of outstanding loans, or if the registrar advised the Board that a credit union was operating unsoundly. The registrar could also prohibit supervision. The supervision would be ended when the circumstances that caused it ceased to exist or the credit union were liquidated.

The supervision powers of the Board included: exercising the registrar's powers to grant indulgence regarding reserve requirement, inspecting the affairs of credit unions, ordering audits of credit unions, ordering the correction of unsound practices, requesting the registrar to appoint the Board as administrator or recommending to the registrar the amalgamation or liquidation of the credit union.

The power to grant indulgences was given to the registrar after the legislation regarding statutory reserves was changed in 1970 and came to be based on a calculation of loss exposure. Credit unions that could not make the required allocation of surplus to statutory reserves could apply to the

Norm Bromberger, general manager and chief executive officer of Credit Union Central of Saskatchewan since 1973. He was secretary-treasurer of the Mutual Aid Board from 1973 to 1977 and has been a member of the Board since 1977.

registrar for an exemption. The registrar could then refer a credit union to the Mutual Aid Board for financial assistance in the form of a guarantee of operational losses, permitting the credit union to pay a reasonable dividend. In 1971 there were 44 requests for indulgence and 12 credit unions were referred to the Board for guarantees. In 1972, the Indulgence Committee was set up with representation from the Board and the Department of Co-operation to review the applications from credit unions, and make recommendations to the registrar.

The 1972 legislation regarding supervision had implications for the operation of the Board. The Board or its representatives could exercise authority only in credit unions that were declared to be under supervision. Central staff could act as agents or employees of the Board, but they only had authority as delegated by it. Supervision implied making suggestions or recommendations to credit union management or officials to bring about the desired improvements in policies or operations. Administration provided for credit unions to be taken over by the Board and operated until necessary improvements were made.

A summary of the situation in 1974 showed that three credit unions were under supervision, and four other credit unions had received Mutual Aid Board advances but were not under supervision. It was Bromberger's opinion that, if the Credit Union Act were interpreted more strictly, they would be placed under supervision. In addition, there were seven credit unions with management contracts and Development Fund assistance, and 12 credit unions that had been granted dispensations from the Indulgence Committee.[illegible]

Aside from the fact that not all credit unions needing supervision were getting it, there was a feeling that the Board's powers were inadequate. In a letter to John Barr in 1974, Board solicitor Joe Dierker gave his opinion that the Board had little real power when a credit union was under supervision, and that the registrar could turn down a request to place a credit union under administration.

The Board task force in 1974 proposed several amendments to the Credit Union Act to strengthen the Board's supervisory powers. It said that all credit unions should be subject to supervision at the discretion of the Board, and the registrar should not be able to prohibit supervision. Also, the Board should have sole discretion to decide when to terminate supervision, and could place a credit union under administration unless the registrar disallowed its order within 15 days. The task force also recommended that the Board monitor all credit unions at least annually, and it established criteria for determining whether a credit union was conducting its affairs in a financially unsound manner. The supervision powers of the Board were strengthened in later amendments to the Act, although not all of the task force recommendations were adopted.

Dissolutions and amalgamations

The Board also developed policies to deal with dissolutions and amalgamations involving credit unions in which it had a financial interest. The number of dissolutions had dwindled but there were numerous amalgamations — 32 in the period from 1970 to 1977.

In 1974, the Board task force developed a policy for assistance in cases of amalgamation. The Board would guarantee the aggregate of operating

losses of the present year to the date of the amalgamation, capitalized expenses of the preceding year, and past-due and current year installments of Development Fund loans. From this amount would be deducted any amounts in the general reserve and undistributed surplus of the amalgamating credit union.

The Board also undertook to purchase bad loan losses in excess of statutory reserves at the date of the amalgamation, and guarantee future losses for five years on loans assumed by the continuing credit union, to a maximum of five per cent of the loan portfolio assumed.[12] Bad loans were defined as loans where there had been no payment of interest or principal for at least two years, losses on foreclosed property, statutory writeoffs, and other mutually agreed upon loan losses.

The Board had been assisting the development of credit union branches through amalgamations since the late 1960s. In 1974, Drake Credit Union asked for Board assistance for the development of a new branch at Lanigan. The Board decided to extend its policy to include new branches. The policy established in 1975 provided for Board approval for the capitalization of branch development costs up to a maximum level. These costs could be written off against income over a five-year period, provided general reserves were not reduced below the amount of the capitalized costs. In 1979, a new formula for branch development assistance was created. The Board would provide a loan of three per cent of branch assets, or $100,000, whichever was less, with repayment in two years.

Size of the Fund

The primary duty of the Mutual Aid Board was to be prepared to deal with any problem that might arise. That meant the Fund had to be large enough to cover any necessary assistance to credit unions or payouts to depositors. In the original legislation in 1953, a goal of one per cent of total credit union assets had been established for the Fund. Ten years later, the feeling seemed to be that, when the Fund reached $1 million, it would be possible to begin returning assessments to credit unions. That goal was reached in 1964, but the need for continued growth remained, as total credit union assets continued to surge upward. By 1970, the Fund had reached $4 million and few people were saying it was too large.

A new method of determining fund adequacy through the use of a computer model was devised by Prof. R. W. White in British Columbia. Beginning in 1974, the model was used to test the adequacy of the Mutual Aid Fund. In subsequent years, the model was refined to suit economic conditions in Saskatchewan more closely.[13]

The basic problem in arriving at an adequate figure is determining the number and size of potential claims on the fund. White devised a simulation model of the Fund using a formula composed of six variables: loan

delinquency rate; ratio of total loans over total assets; coverage, or net revenue over total revenue; financial risk, determined by adding loans payable and accounts payable and dividing by total assets; operating efficiency, which was net operating expenses divided by total assets; and a growth index.

After data from all credit unions were fed into the computer, the White model was used to arrive at a "probability of distress", rating all credit unions as to the likelihood of their drawing on the Fund, and the likely size of the claims. In 1976, his model showed that the Fund was about $7 million short of what it should be, but after consultations, it was decided that the model needed some updating to suit the circumstances more closely.

Since then, the Board has developed a sophisticated monitoring system and is developing the capability to construct models providing a more comprehensive analysis of various operating conditions and simulating a variety of scenarios. The goal of the Fund remains one per cent of total credit union assets, and it has consistently been at or near that level since the late 1960s.

Investments

In addition to ensuring that the size of the Fund was adequate, the Board had to maximize the safety of the Fund and maintain its ability to absorb the costs of preventive services by earning a reasonable return on the Fund. This meant that an investment policy was required. In the early years, most of the Fund not on loan to credit unions was held in Credit Society shares and term deposits. Later, the Board invested in Co-operative Trust Company shares and guaranteed investment certificates and in Saskatchewan government bonds as well.

A firm investment policy was not established until 1974. The basic policy was to invest a maximum of 50 per cent of the Fund in government bonds or bank or trust company deposit certificates, and the remainder in the Credit Society and Co-operative Trust.

In 1978, the policy was revised so that investments outside the credit union system would be at least 55 per cent of the total, and investment in Central shares would be 20 to 40 per cent. A maximum of 33 per cent of the total would be in maturities in excess of 10 years. The Board also contracted with Canadian Co-operative Credit Society to have its investment portfolio managed by the national society. That arrangement was terminated in 1982 because of the cost and the minimal investment activity.

A look at the Fund in October, 1982, demonstrated the need for investments to earn a good return. Of the total Fund assets of about $34 million, more than $10 million were in assistance loans or acquired credit union loans earning no interest.[14] There was also the possibility of a substantial loss on a loan to University Credit Union in Saskatoon, whose

John Barr, the first manager of the Mutual Aid Board, a position he held from 1978 to 1982

activities were being wound up. As a result, it was possible that some ground might be lost in maintaining the target of one per cent of total credit union system assets. On the positive side, it was demonstrated that the Fund could absorb a sizeable loss and still suffer only a temporary setback.

Central Credit Committee

One of the most important preventive programs of the Mutual Aid Board related to loans. With the great influx of deposits into credit unions during the 1960s and 1970s, managers were almost forced to go out and solicit loans. An increasing number of them were large business loans and few managers had much experience in this rather complex lending field. Local credit committees rarely had the experience to assess or monitor business loans properly either. Inevitably, there were problems and it became clear that something would have to be done at the central level to prevent the situation from deteriorating.

One measure taken to deal with the problem was the provision in the 1972 Credit Union Act for the Mutual Aid Board to set up a Central Credit Committee to consider loan applications from credit unions. The new committee would concentrate its efforts on reviewing business loans and loans by credit unions to their own staff and directors.

The Central Committee was organized in May, 1972. It was composed of the members of the Credit Society credit committee, as well as the chairman of the Mutual Aid Board, and John Barr, who was handling much of the Board's administrative work. The committee immediately began to develop application forms and began to consider loan referrals in October, one month after the revised Act came into effect.

In its first month, the committee met 10 times and considered 55 loans, declining eight of them.[15] A special committee made up of three members of the Central Committee was set up to handle applications from credit unions under supervision or receiving financial assistance from the Board. Some of these credit unions were required to refer all loans of over $5,000 for approval.

The new regulations caused a certain amount of unhappiness in credit unions. In particular, some credit union officials whose loans were referred to the Central Committee felt that they had been reduced to the status of second class members and they considered resigning. The Board agreed that there were some legitimate concerns. At a meeting in December, 1972, it was suggested that a list of credit unions where loan administration was properly handled should be drawn up, and the regulations should be amended to permit approval of progressively larger loans. The list would have to be kept under constant surveillance.

By 1974, the Central Committee was very active. During the year, it considered nearly 1,000 loan applications, approving 762 loans for a total of $25.3 million.[16] The Board gave the Central Committee authority to ask for quarterly reports on some or all of the approved loans. It was also working to establish a more effective means of handling loans and reducing risks in the business loan area. It was considering the possibility of hiring a qualified individual to assess business loans on behalf of credit unions. At the same time, the Credit Society decided to hire a loss prevention officer.

There was also a feeling on the Board that existing legislation on loan approvals contained too many limitations and restrictions. It was proposed that loan granting limits and processing be made more flexible through broad guidelines in legislation, with specific limitations and controls granted by the Board on application by credit unions.

Another step taken by the Board to improve the quality of loans was the expenditure of $10,000 in 1974 for the preparation of a business loan manual, similar to one developed by the Credit Union Reserve Board in British Columbia. The manual, which was prepared by Wayne Nygren of the Credit Society, included a general statement of business loans policy under the Act, business loan applications, analysis of business loans, security requirements, and business loan follow ups. The manual was completed later that year and distributed in 1975 to all credit unions and the Department of Co-operation inspection staff.

The manual was followed by a business loan course and lending seminars. It appeared to help improve the ability of credit unions to process loans. By 1978, the number of business loans referred to the Central Committee was double the amount in 1974, but the number of loans deferred or declined had not increased.[17] In 1975, work began on an agricultural loan manual and a model credit union loan policy.

In 1982, Gail Dell joined the MAB management team as supervisor of risk management services. Among her duties were the updating and revision of operations, loans and policy manuals.

Bonding and Insurance

Another important loss prevention function assumed by the Mutual Aid Board was bonding and insurance. The Board had been involved in supporting programs, for example through its loans to credit unions for the purchase of safekeeping equipment. In 1972, the Credit Union Act transferred responsibility for bonding and insurance programs from the Credit Society to the Board.

Shortly after the Act was passed, a committee was set up to reassess credit union bonding and insurance requirements. One issue singled out for special attention was fidelity and faithful performance. Some people felt that faithful performance basically insured mismanagement. There were also suggestions that credit unions should accept responsibility for a portion of each claim and that, since the Mutual Aid Board was responsible in the final analysis, it could carry re-insurance to protect the Fund against any catastrophic losses.

Among the recommendations made by the committee in 1973 were the following: faithful performance coverage should be mandatory; fidelity and faithful performance coverage should be 100 per cent of assets up to $3 million; burglary and robbery coverage should be limited relative to safekeeping; there should be mandatory deductibles except for losses caused by burglary, robbery, holdup and mail theft; there should be "all risk" valuable papers protection; and there should be overdraft coverage, with credit union directors being required to approve resolutions prohibiting overdrafts. Most of these recommendations were incorporated into the coverage provided under a new contract with Co-operative Insurance Services Ltd. (CIS). Blanket liability coverage of up to $1 million per occurrence was also introduced in 1974.

Also in 1974, the Board began a policy of tendering for blanket bond and burglary insurance for a one-year period every three years. The premium costs would be negotiated with the designated carrier annually and, if agreement was not reached, the Board had the option of inviting tenders on any anniversary date of the agreement.

In 1977, when the three-year policy expired, the contract with CIS was extended. At the same time, the Board began an in-depth review of blanket

Paul Desch, director of operations of the Mutual Aid Board from 1978 to 1982

bond and burglary coverage in anticipation of the credit union system providing its own coverage. Under this program credit unions would be responsible for deductibility (then 10 per cent of each loss), with the Board's bond program responsible for the balance of the loss. The Board would tender for re-insurance on losses of over $50,000. CIS could be contracted to administer the program for a percentage of premium income. The Act revisions in 1977 gave the Board the power to assess premiums to cover the cost of insurance programs and a separate insurance assessment fund was set up in its books.

In 1980, when the coverage was next renegotiated, there had been a noticeable shift in the types of losses. Until the mid 1970s, external losses such as burglary, robbery and forgery had predominated. After that, there were more internal losses, mostly under the faithful performance category. Many of the faithful performance losses were the result of unauthorized loans, and the danger of losses in this area was causing fear among credit union employees who felt their careers were being jeopardized. There was a feeling that better auditing and monitoring, and clearer policies and procedures were needed. The deductible on fidelity and faithful performance claims was increased from $10,000 to $50,000 in an attempt to improve the situation.

Meanwhile, the two leading credit union bond carriers in Canada, CUMIS and The Co-operators (formed after a merger involving CIS), announced that they would introduce a common bonding program in 1981. They claimed that their loss ratios had increased significantly in the previous five years despite investments in risk management programs. Combined premiums were $11.2 million, while claims totalled $13.5 million for the two carriers in 1976-1980. Sixty per cent of all claims were in the faithful performance category. They announced that faithful performance coverage would become optional, and the premiums for that coverage were increased sharply.[18]

As a result of the increased cost of coverage and the continuing doubts regarding its value, the Mutual Aid Board decided in 1981 to discontinue mandatory faithful performance coverage. It opted to commit more resources to loss prevention at the credit union level and to continue to build the Fund to provide additional "self assurance".

The fact that there continued to be problems, including some large loan losses, in the credit union system, only served to emphasize the continuing need for a stronger and more effective Mutual Aid Board. A great deal of work was done during the 1970s to revise and improve legislation concerning the Board, clearly determine the role of the Board in relation to Central and the government, build up the size of the Fund, and introduce policies and programs to deal with existing problems and head off potential problems. The groundwork was well laid, and by the end of the decade, the Board and the Fund were in a position to be more effective than ever in protecting members' deposits.

Footnotes

[1] Christine Purden, *Agents for Change*, p. 86-87.

[2] See Saskatchewan Wheat Pool, *The Carter Royal Commission and Canadian Taxation 1967*, Regina: Saskatchewan Wheat Pool, 1967, p. 43-44, and CCH Canadian Ltd., *Analysis of the White Paper on Tax Reform*, Don Mills, Ont.: CCH Canadian Ltd., 1969.

[3] Like other corporations filing tax returns, credit unions charge as an expense costs of doing business. Interest and rebates are standard deductions for all financial institutions. Dividends on shares are deducted in credit unions, since effectively the shares are a form of savings and the dividends are tantamount to interest. In addition, credit unions are subject to a special tax rate of 25 per cent until they have achieved a certain level of what is, in effect, a tax surplus account equal to five per cent of shares and deposits. The underlying intent is that credit unions should have the ability to achieve, at a low rate of tax, a surplus account level somewhat similar to that which was achieved by the chartered banks prior to their being effectively taxed.

[4] Mutual Aid Board, *Annual Report*, 1975.

[5] President's report to the directors, Credit Union League of Saskatchewan September 6, 1949

[6] Baldur Johnson Audit Report to Saskatchewan Co-operative Credit Society 1969

Mutual Aid Board, *Annual Report*, 1971

[8] Motion adopted by Mutual Aid Board, July 26, 1976

[9] *FDIC Symbol of Confidence* (Washington, Federal Deposit Insurance Corporation 1980)

[10] Mutual Aid Board meeting minutes, June 27 1975

[11] Memo from Dale Hillmer to Norm Bromberger July 17 1974.

[12] Mutual Aid Board *Annual Report* 1975

[13] See Richard Eckert *Credit Union Equity and Reserves* (Regina, Saskatchewan Co-operative Credit Society Ltd November 1977), p 11 13 and *Credit Union Way*, October 25 1978

[14] Mutual Aid Board investment report October 31 1982

[15] Secretary's report to Mutual Aid Board, December 1972

[16] Mutual Aid Board *Annual Report* 1974.

[17] Mutual Aid Board *Annual Report* 1978.

[18] *Credit Union Way* March 11 1981

CHAPTER SIX

A New Sense of Direction

Without question, a major watershed in the history of the Mutual Aid Board occurred in 1977, the 25th anniversary of the passage of amendments to the Credit Union Act enabling the Fund to be set up. The significant event in 1977 was again the passage of amendments to the Credit Union Act. The amendments clearly set out the new expanded responsibilities of the Board and enabled it to establish itself as a much more important factor in the future operations of the credit union system. In a sense, the amendments in 1977 marked the culmination of a quarter century of efforts by credit union leaders to develop the organizational structures and relationships, as well as the rehabilitative and preventive programs that would best serve the needs of the credit union system in Saskatchewan.

New structure

The actual work of revising the legislation as it applied to the Fund was begun in 1974, at a time when the Mutual Aid Board was in the middle of a major effort to set down clear policies in areas such as supervision and amalgamation, clarify its role in relationship to both the government and Central, negotiate an agreement with the CDIC as lender of last resort, and determine the implications of changes in the Income Tax Act.

It had become clear to the Board by 1974 that the Credit Union Act, as rewritten in 1972, did not go far enough in defining the role and powers of the Board. In May, 1974, the Board initiated the task of reviewing and rewriting the sections of the Act dealing with the Fund. While it took almost three years for the recommended amendments to be passed into law, there

The men seated at the table were members of the Credit Union Deposit Guarantee Corporation (Mutual Aid) Board in 1983. They are (left to right): Norm Bromberger, chief executive officer of Credit Union Central of Saskatchewan; Morley Meiklejohn, executive director of the investment and financial services branch in the Saskatchewan Department of Finance; Vic Keep, general manager of Assiniboia Savings and Credit Union, and chairman of the Mutual Aid Board; Les Tendler, general manager of Sherwood Credit Union and president of Credit Union Central of Saskatchewan; and Bill Render, deputy minister in the Department of Co-operation and Co-operative Development. Standing are: Ed Cunningham (left), director of the Deposit Guarantee Corporation, and Peter Wouters, Central's vice president for Mutual Aid Board/Planning and Development, and secretary of the Mutual Aid Board.

was general agreement within the credit union system in the mid 1970s on the shape that the Mutual Aid Board should take. The most important element in the amendments was that, for the first time, it was clearly stated that there was an unlimited guarantee of all shares and deposits in credit unions. While it had, no doubt, always been understood that the Fund provided such a guarantee, it was now written into the law. The debate over deposit insurance, which had been going on for nearly a decade, played a part in the decision to have the deposit guarantee stated explicitly in the legislation.

In order to support its full guarantee, the Board was given wider powers in prescribing standards of sound business and financial practices, inspection, supervision and administration of credit unions. The emphasis on loss prevention was restated in the amendments; in fact, it was now quite clear that prevention was to become the primary role of the Board. To

further strengthen the guarantee, the Board was given the power to borrow money from the Canada Deposit Insurance Corporation which had been designated as a lender of last resort under the agreement negotiated previous to the passage of the amendments.

The amendments also stated more clearly how the Mutual Aid Board was to be structured. The 1972 Act had simply stated that three members of the Board were to be nominated by the board of directors of the Credit Society. The 1977 amendments retained the five member Board, with two members to be appointed by Central's board. One of the two was to be a director of Central. The third credit union system representative on the Board was to be the general manager or his nominee. Hitherto, Central's general manager had served as secretary treasurer of the Board. This change would permit the most knowledgeable officer in the credit union system to play a direct and active role in the decision-making of the Board.

The question of the two government appointees to the Board was also clarified. The 1972 Act had provided for appointment by the government of two Board members who were not nominated by the board of the Credit Society. In fact, during the period from 1972 to 1977, there was never more than one government official on the Board. After Al Snell retired in 1973, he was replaced by his successors in the Credit Union Branch of the Department of Co-operation and Co-operative Development. The second non nominated government appointee was always someone from the credit union system.

The 1977 amendments, however, made it clear that, in addition to the three Board members from the credit union system, one should be the deputy minister of co-operation and co-operative development or his nominee, and the other should be the deputy minister of finance or his nominee. The addition of the deputy minister of co-operation was useful since, as registrar of credit unions, he was required to authorize Board actions in a number of areas. By sitting on the Board, he would have more direct, first hand knowledge of its policies and programs. Representation from the Department of Finance was also seen as being beneficial in that the "outside opinions" of someone with experience in financial management and knowledge of government financial policies were of value in Board deliberations.

The amendments helped to clarify the respective roles of the Board, the Department of Co-operation and Central. The Board would continue to emphasize prevention, with monitoring of credit unions as its primary function. The Department was responsible for public protection and administration of the Credit Union Act. It would carry out inspections at the request of the Board or as a result of problems identified in the Board's monitoring. Central would continue with its development programs and services.

A management team

The increased powers and more active role of the Mutual Aid Board meant that it would be needing its own management personnel. The existing arrangement whereby Central provided management to the Board on a contract basis was continued but Central's management structure was reorganized in 1978 to accommodate the expanded role of Board functions. A separate Mutual Aid Board division was set up in Central and John Barr who had been doing a great deal of work for the Board during the previous decade, was appointed manager. Paul Desch, who had also been active in Mutual Aid Board work for several years, continued as director of operations. For the first time, the Board had its own management team.

For several years after these appointments, Central's district program (later district development) managers carried out operational duties for the Board under the direction of Barr and Desch. While this arrangement worked well in most respects, one problem encountered was some confusion of the roles of district managers in the minds of credit union management. After Barr retired in 1982 there was a further reorganization of Central's management. The Mutual Aid Board's management team, under its new director Ed Cunningham, was enlarged and more Board functions were transferred to it. The district development department could then concen-

The Deposit Guarantee Corporation (Mutual Aid Board) management team in 1983 consisted of (left to right) Greg Wallace loss prevention manager Doug Glessing financial analyst Gail Dell risk management supervisor and Ed Cunningham director

trate its efforts on development priorities. Co-ordination of the various interrelated functions was achieved through the appointment of Peter Wouters as vice-president in charge of Mutual Aid Board/Planning and Development.

Further amendments to the Credit Union Act were passed in 1978, increasing the responsibilities of the Board in the areas of capital expenditures and borrowing by credit unions and loans to credit union members. Also, approvals of incorporations, amalgamations, and dissolutions, the granting of indulgences, and the approval of credit union audits by the registrar were done in consultation with the Board.

While these amendments were being passed to help the Board carry out the role that had been defined for it, there was also a need for extensive revisions to credit union regulations. Many parts had not been changed since the original Credit Union Act had been passed in 1937. Meanwhile, the credit union system had grown enormously and matured. A far greater level of self-regulation was possible than in the early years. John Barr and other representatives of the Board played an active part in the Act rewrite task force beginning in 1978. By 1981, revision of the Standard Bylaws was completed, and the task of revising and rewriting the Act was nearing completion in 1983. Mutual Aid Board management continued to play a leading role in this work.

The theme of increased self-regulation had implications for the Board as well as for the government. It meant that the Board would step up its monitoring program, but refrain from direct intervention in credit unions unless there was no other alternative. This had always been the approach used by John Barr, but now, even with its increased capacity to intervene, the Board continued to affirm the principle of self-regulation and work toward it in the revision of legislation.

New strategies and policies

In 1977, Central staff was assigned, on behalf of the Mutual Aid Board, to develop aims, objectives, strategies and policies for the operation of the new Board. A year later, a list of proposed functions for the Board included the following: establishment of internal audit standards, emergency examinations with the district program manager, particularly if an operational survey was required; review of all audit and inspection reports, development of an early warning system, work with Department of Co-operation inspectors; loss prevention through the establishment of equipment standards and operation of the bonding program, Central Credit Committee and business loan follow up, and responsibility for development and implementation of an overdraft model.[1]

In a letter to credit unions in 1979, John Barr said that the review of aims, objectives and strategies had been completed. The revisions reflected the self-regulatory effect of recent legislative amendments, he added. The

Board would continue to focus on prevention, while credit unions would be responsible for their own operating results. The early warning system would have a high priority. The top priorities for the Board, according to Barr, would be the development of good lines of communication with credit unions and with other stabilization funds. The amount of self regulation in a credit union would be determined by the credit union's ability to operate as a viable unit.

Supervision

The supervision policy of the Mutual Aid Board was refined under the direction of John Barr as well. The Board was authorized by the Credit Union Act to place credit unions under supervision under certain circumstances: for example, when credit unions failed to develop adequate reserves or adequate plans and policies, or failed to operate in a sound and business-like manner.

However, the policy was to place a credit union under supervision only if moral suasion failed to rehabilitate a credit union or resolve its problems. The first approach would be for the Mutual Aid Board management to discuss the situation with the credit union's leaders, gain agreement on identifying the key problems, evaluate action plans, and suggest a developmental approach to resolve problems. If that was not accepted by the credit union, or if its financial performance continued to be less than adequate, controls would be recommended. Where a potential claim on the Fund was discovered through an examination of the key risk areas, immediate action would be initiated by the Board management to protect the Fund and prevent losses. No formal supervision order could be issued without the concurrence of the registrar.

The Board would follow a particular procedure in these cases. MAB management or a district program manager would meet with the board and management of the credit union to explain supervision. The Board would advise the credit union and the registrar that the credit union was being placed under supervision. The credit union would then have 15 days to appeal the notice.

The Mutual Aid Board could request a government inspection of all credit unions under supervision. The credit union's board would continue to function with all its rights and responsibilities, but the manager would receive direction and assistance from the Mutual Aid Board. During the 1970s, responsibility for supervision cases rested with the district program managers. However, with the reorganization of Central in 1982, a loss prevention manager, Greg Wallace, was appointed as part of the MAB management team, with responsibility for dealing with credit unions under supervision. Where necessary, the Board could require a credit union to engage Central through a management agreement.

There were two phases to supervision. In the short run, attention was focussed on revising policies, rates, services, and procedures. There would also be a long-term development program involving long-range planning, board/management development, and reserve building.

The progress of the credit union would be monitored closely, with management being required to prepare accurate reports for both the credit union board and the Mutual Aid Board. These would include financial and statistical reports, overdraft reports and management reports. The Board would also determine when a credit union could be taken off supervision. Supervision would be discontinued when the conditions that caused supervision disappeared; for example, when operating losses and past losses were repaid.

One way in which a credit union could be placed under supervision was if it requested permission from the Mutual Aid Board to reduce its reserve allocations below the required level or to capitalize expenses. As mentioned in Chapter 5, the Indulgence Committee (re-named the Performance Review Committee in 1982) was set up by the Board in the early 1970s to review these applications. In the period from 1977 to 1980, between 14 and 16 applications for indulgence were approved each year.[2] Following each approval, the credit union was informed that a contingent liability to the Mutual Aid Board had been created and the credit union would be subject to supervision. These credit unions were also placed on the Board's "watch list."

The total level of contingent liabilities was growing. It rose from $736,000 in 1979 to nearly $1 million in 1980 and $2.6 million in 1981.[3] Statutory reserve deficiencies and capitalized deficits accounted for the largest proportions. The Board repeatedly urged credit unions to build reserves over and above the statutory requirements to provide a cushion for unexpected contingencies. One report showed that 1982 was a record year for undivided surpluses, but there was a trend to increased delinquency and loss exposure on loans. It was suggested that the concept of a doubtful account reserve be incorporated into the 1983 Credit Union Act rewrite.[4]

Loan monitoring and assistance

Problems continued to crop up as a result of the lending practices of credit unions, particularly in the area of commercial lending. According to one estimate in 1979, 90 per cent of all bad debt write-offs in Saskatchewan credit unions were for business loans.[5] A report to the Mutual Aid Board expressed concern about the inability of credit unions to analyze business loans properly or monitor them adequately.

While both Central and the Mutual Aid Board were encouraging credit unions to get into commercial lending, they realized that credit unions would need help to reduce the risk and realize the profits. One area of

District meetings have long been a vital part of the information sharing process in the credit union system. Speaking at this meeting in Assiniboia in 1977 is Vic Keep. He was elected chairman of the Mutual Aid Board in 1979.

assistance was in training and policy development. In 1979, Central hired an experienced commercial loan analyst, Ron Stroich; it prepared a loan policy statement for recommendation to credit unions; it drafted standardized application forms; and it held a series of workshops on business loans.

In 1980, Central held more commercial loan seminars, and introduced a commercial loans policy and a new format for analysis of loan applications. In 1981, seminars were held on the subject of insolvency and bankruptcy and, in 1982, Central reorganized its lending services and introduced a commercial loan consulting service.

Another method of improving the quality of commercial loans was through the system of loan processing and loan approvals begun by Central and the Mutual Aid Board in the early 1970s. The Board's Central Credit Committee was responsible for approving, declining or amending loans submitted to it, on the basis of information provided by the credit union. The committee would evaluate loans and advise the Board on credit union lending policies. Central's loan services department served as a resource to the Board, processing loans submitted to the Central Committee, and

reviewing loan applications to ensure that sufficient information was available.

One requirement of the 1972 legislation was that all business loans and loans to credit union officers, directors or employees in excess of $15,000 had to be submitted to the Central Committee for approval. The only exceptions were for certain larger credit unions with healthy levels of reserves. By 1977, there was a growing feeling in credit unions that the $15,000 limit was too low, and credit unions were having difficulty competing in the loan field because of the length of time needed to approve all but the smallest business loans.

As a result, in 1978, the Standard Bylaws were amended to remove this limitation. Credit unions could apply to the Mutual Aid Board for "approved lender status", and the onus was on them to suggest an appropriate new lending limit. Policy guidelines were established to determine what the limits should be. For example, delinquency had to be less than three per cent of total loans, loss exposure less than 25 per cent of reserves and reserves had to exceed loss exposure by more than one per cent of total loans. The requirements for total exemption remained the same, and the performances of credit unions were reviewed annually.

Credit unions responded to the change favorably and applied for very realistic limits, based on their local situations. By 1981, approved lender status was granted to 33 credit unions. When the Standard Bylaws were rewritten in 1981, the Mutual Aid Board retained the discretion to determine limits on business and other loans made without Central Committee approval. The limits on unsecured loans and loans by management without credit committee approval were also increased to allow credit unions to be more competitive.

To speed the processing of loans submitted to the Mutual Aid Board for approval, powers of approval were divided according to the size of the loans. The smallest loans submitted could be approved by Central's director of loaning services or a designated department head. Larger loans were approved by a credit committee appointed by Central management, and still larger loans were approved by a credit committee appointed by Central's board. Loans of over $15 million had to be approved by Central's board or executive. The limits at each of these levels have been increased several times since 1977.[4]

The number of loans processed through the Central Committee each year grew rapidly during the 1970s, passing the 2,000 mark in 1978. Since then, it has remained relatively constant, but the approval rates have improved, while the number of loans declined or returned for more information has dropped. That would seem to indicate an improvement in the documentation and handling of business loan applications by credit unions.

Credit union audits

By the late 1970s, monitoring had become a central function of the Mutual Aid Board. For many years, one of the most important means of monitoring the performances of credit unions was the audit. In the early years of the movement, the Department of Co-operation and Co-operative Development audited all credit unions. By the 1950s, most of the larger credit unions were using audit firms to do this work. The quality of auditing services provided by firms varied considerably and the cost of auditing was an additional expense for credit unions. As a result, the Credit Union League began to consider the possibility of establishing its own audit service. A recommendation to that effect was approved by the League board in 1955, but no action was taken. The idea was considered again several times during the 1950s and 1960s, but a League audit service was never established.

In 1965, the conclusion of a study conducted by the League was that it should arrange for a standard audit with a number of auditing firms. In 1969, a report by Baldur Johnson, then secretary of the newly amalgamated Credit Society, mentioned a number of alternatives that had been considered, including a League audit department, a contract arrangement with an audit firm, an audit service provided by the Department of Co-operation, and a co-operative audit service run jointly with other co-operatives. All of these options were dropped.

One of the recommendations of Johnson's report was that the Mutual Aid Board be empowered to require a special audit or survey of any credit union where it considered such action to be necessary. The report also suggested the possibility that the Board assume some responsibilities from the registrar.

In 1970, the Mutual Aid Board approved a motion requiring credit unions receiving advances of funds to furnish any details required to Board representatives. Credit Society staff were asked to represent the Board in the field, and auditors and Department inspectors were asked by the Board to look for any violations of terms and conditions among credit unions receiving Mutual Aid Board assistance.

There was also continuing concern that audits, particularly loan audits, were not detailed enough. A meeting of representatives of the Board, the Credit Society, the Department and auditors was held in 1971. Credit unions were upset about having to pay both audit and inspection fees. The Department was talking about reducing its inspections and relying on auditors' reports, limiting itself to examining weak credit unions. Meanwhile, auditors said a full audit of loans would increase costs substantially. There was some feeling that the new legislation setting up the Central Credit Committee would introduce some needed controls over lending activities.

Later in 1971, the Role Committee reviewed a schedule of minimum audit requirements and suggested a check list for auditors. One audit firm in Swift Current was already making inspections of loans. In 1973, it was agreed that the Department of Co-operation should develop minimum audit standards, in consultation with the Institute of Chartered Accountants and representatives of the Mutual Aid Board and the Credit Society. Already, one of the problems being considered was the tracing of the audit trail where computerized accounting was being used.

In 1977, the Mutual Aid Board sponsored a meeting attended by representatives of 16 audit firms. They reviewed roles and outlined controls on Central's automation system. Mutual Aid Board staff were asked to develop a proposal to maintain high standards for credit union audits and produce a list of approved auditors.

The total auditing process was composed of five parts, as Paul Desch described it in 1978.[7] There was the audit, which was a balance sheet and operating statement verification carried out by an accounting firm. The Mutual Aid Board would carry out an examination of a credit union's internal operations, policies, margins, liquidity and markets. An inspection, at the request of the Board, would provide a follow-up on special problems, loans or loss exposure. Internal audits would involve an examination of operations, procedures and internal controls by credit unions. In addition, the government would examine credit unions to ensure compliance with legislation and fulfill the government's role as protector of the public interest.

In 1978, an audit task force, composed of auditors and representatives of the credit union system, was established and it continued to meet annually to review relations between credit unions, auditors, the Board, and the Department. In 1978, it studied audit guidelines, auditors' reports, evaluation of credit union outputs and control procedures. In following years, it also studied commercial loans processing, financial reporting of credit unions, data processing systems controls, the allowance for doubtful accounts, the early warning system, fidelity bonding and other matters related to strengthening the auditing process.

In 1979, Mutual Aid Board manager John Barr and Ed Gebert, a former chairman of the Board, were appointed to a national committee of the Canadian Institute of Chartered Accountants to research credit union financial reporting and the auditing of credit unions. A regional advisory group to the CICA was also set up and was assisted by the Mutual Aid Board's audit task force.

In 1980, Central, in conjunction with the Board, established an internal audit system with the aim of stabilizing costs and improving audits in the credit union system. The internal audit department, which was expanded in 1981, concentrated on electronic data processing (EDP) audit, developing

internal audit formats for credit unions, managing access to audit software for auditors and educating them in its use, and conducting special audits requested by the Board.

The expanded monitoring program

The Mutual Aid Board had increased its involvement in the auditing process in 1977, when it was given its broadened mandate as a deposit guarantee fund. Auditing became one aspect of the new and more comprehensive monitoring program initiated in 1977. Known as the early warning system, the program was patterned to some extent on the system developed by the FDIC. It included the annual audits, internal management controls by credit unions, inspections by the Department of Co-operation, and two new programs: the integrated monitoring system and the probability of distress model.

The integrated monitoring system (IMS) was developed by the Board, Central and the Department of Co-operation statistics branch as an improved alternative to the reporting system operated by the Department. It involved the submission by credit unions of monthly and quarterly reports to Central. Central processed the information and returned the composite results to credit unions.

The monthly reports included selected balance sheet figures and cash flow totals, and the statistics from Central covered cash flows, interest rates and liquidity. The quarterly reports were complete three-month financial reports and were used to generate in-depth information on key performance areas: reserve ratios, surplus distribution potential, loss exposure, and expense-revenue ratios. The performance of a credit union was compared with aggregate ratios of similar sized credit unions and the combined ratios of all reporting credit unions.

The IMS began as a pilot project and, by the end of 1977, 115 credit unions were on the system. The number had increased to 188 credit unions with 90 per cent of all assets by early 1979 and, by the end of that year, all but six small credit unions were reporting regularly.[8] One of the incentives for them to join was agreement by the Department of Co-operation to accept IMS data as meeting the legal requirements for reporting to government and to Statistics Canada, thus eliminating a great deal of time-consuming paperwork for credit unions. In addition, the Department discontinued the "loans by purpose" reports, which were lengthy but of no use to credit unions. Responsibility for development of the program was in the hands of Sheila Ebbels (formerly Ottenbreit), who became financial monitoring officer for the Board in 1978. In 1981, Doug Glessing took over management of the monitoring system.

In 1980, work was begun on revising the IMS so it could provide credit unions with the additional analytical and comparative information they were requesting. The plan was to replace the IMS software with new

programs to be run on the computers of The Co-operators and Central. At the same time, consultants were hired to study the feasibility of developing a common EDP general ledger data base for credit unions. The revised IMS program would be able to interface with the new general ledger system.

One of the problems with the original IMS software was that it was not possible to store data or modify programs. The revised software system, which became operational in 1982, provided active storage of data for three years, with back up for an additional seven years. The new system could operate on-line, accepting data input by terminal or by interface to the credit union on-line general ledger system. The registrar agreed to discontinue the monthly IMS reports, so more analysis could be done on the quarterly reports.

While data collection from automated credit unions was greatly enhanced with the new system, reports from "off-line" credit unions still caused some delays. Nevertheless, the aim was to reduce the turnaround time from six weeks to three weeks. An additional advantage of the new system was that the data base was accessible to a number of system software packages, such as Financial Forecasting and Modelling, Culprit, and Statistical Analysis, making it possible to develop a management information system capable of meeting many of the expressed needs of credit unions.

The Mutual Aid Board used the statistics from the IMS to prepare a quarterly risk ranking of all credit unions based on the probability of distress model. Certain of these credit unions would be placed on the Board's "watch list." For example, in the period between 1979 and 1982, the number of credit unions in the "potential payoff" category rose from two to four. The number of credit unions in the "serious problem" category fluctuated between four and ten, while there were anywhere from 44 to 55 credit unions in the "other problem" category. Credit unions with operating deficits or liquidity deficiencies were also identified. Those in the "potential payoff" category were usually placed under supervision.[9]

Operational surveys

If a credit union finds itself in financial difficulties, it has the primary responsibility for resolving its problems. However, financial assistance is available from the Mutual Aid Board when serious problems exist, and technical assistance is available in a variety of forms from Central.

The operational survey was one device developed by the field staff of the League in the 1960s to identify and analyze problems and suggest strategies for solving them. These surveys continued to be used frequently during the 1980s, although they were intended increasingly as preventive and planning tools rather than problem solving and rehabilitation aids.

Operational surveys are conducted at the request of credit unions. They are carried out by a team of four to six persons from Central, co-ordinated

by a district development officer. Personnel from loan services, data processing, and human resources may be included on the team. Before beginning the survey, the district development manager meets the board and management of the credit union to determine the reasons for the survey, ensure full understanding of the program, and establish the credit union priorities and survey objectives. Commitment of the board is an important factor.

The survey itself is a thorough fact finding examination of all the credit union's operations, measuring the actual situation against recognized standards. The team gathers its information by studying the organizational structure of the credit union and how effectively it is functioning, its procurement and use of capital, its growth and development, and its sales and marketing programs. A comprehensive report is written and submitted to the credit union. As many as 12 surveys have been conducted in a year and Central personnel have co-operated with other provincial Centrals in carrying out surveys.

The case of Unity Credit Union

The Mutual Aid Board has made use of operational surveys as part of its recovery program for credit unions in difficulties. It has provided assistance to many credit unions, but certain cases stand out because they played an important part in shaping the policies and programs developed by the Board. Arran and St. Gregor were important in that sense in the 1950s. In the 1970s, the experience of the Board in assisting Unity Credit Union played a key role in shaping its future. Again, the story had a happy ending.[16]

The problems began in the early 1960s when the province-wide economic upsurge led to rapid growth in the credit union: assets doubled in just five years. It was a free wheeling period and controls on the growing volumes of money passing through the credit union tended to be rather lax. For example, not sufficient funds (NSF) cheques were covered by promissory notes. New loans had to be marketed to keep pace with the growing size of deposits, but loans were made without security, and delinquent loans were not followed up. So long as the economy remained healthy, the credit union could seemingly continue its "generous" policies and ignore the danger signs.

But a glut of grain began in 1968 and the Saskatchewan economy went into a nose-dive. The roof fell in on Unity Credit Union. The Department of Co-operation had conducted several loan audits and warned of serious problems — one report was 108 pages long. The Mutual Aid Board expressed its concern too, and eventually the credit union's board consented to have an extensive operational survey done.

The survey revealed the extent of the problem. The credit union had loaned out 105 per cent of its assets of about $3 million. Delinquent loans

Leon Breton, hired as manager of Unity Credit Union in 1970, was instrumental in guiding the credit union out of its financial difficulties.

totalled $1.54 million and there was a possibility that about $750,000 would have to be written off. The reserves amounted to only about $160,000. No loans had been written off to that time.

In 1970 the manager resigned and Leon Breton, who had spent seven years at Lafleche Credit Union, was hired to replace him. One of Breton's first tasks was to identify the most doubtful loans and possible losses on others. Eventually, it was agreed that the Mutual Aid Board would provide $500,000 in an interest free loan to cover potential write-offs.

Half of the loan was made available in 1972 and the remainder the following year. Unity also became the first credit union to be placed under supervision by the Mutual Aid Board. The loan was by far the largest granted by the Board up to that time, but in retrospect a number of people involved at the time felt it was inadequate, making recovery unnecessarily difficult for the credit union. There were also stringent conditions attached to the loan. Dividends were reduced from six to four per cent and kept at that level for about five years. The bulk of earnings from the interest free loan went into building up reserves. Loans were limited at first to $500, then to $1,000 per member. Later, all loans of over $7,500 had to be submitted to the Board for approval. A rigid collections program was set up, and a five year period was established for the write off of bad loans.

Breton was placed in a difficult position in attempting to set the recovery program into motion. The previous manager's overly generous attitude in handling the credit union's funds had won him many friends, so for the first year, Breton admitted later, he may have been the most unpopular man in Unity. The restrictions on loans led to a loss of credit union members, and several of the credit union staff resigned because they did not agree with the tough policies. There were several bankruptcies involving court cases at which Breton had to testify.

Breton persevered. Although at one point the Mutual Aid Board

criticized the credit union for not pursuing outstanding loans actively enough, he chose to counsel borrowers rather than hound them. He set up repayment plans rather than going after repossessions, and many of the delinquent accounts were settled fully. Also, as a very community-minded person, Breton soon became involved in local service clubs and minor sports, and eventually became a "pillar of the community."

His approach paid off. In 1974, credit union assets jumped by 33 per cent to $7.5 million. Loss exposure was down to 17 per cent of outstanding loans, and the credit union was able to place $45,000 in statutory reserves, leaving $50,000 as undivided surplus. The credit union requested permission from the Board to pay a 10 per cent patronage refund and place $30,000 into general reserves.

It turned out that only $375,000 in bad loans had to be written off and by 1976 reserves were large enough to cover this amount. Repayment of the Mutual Aid Board loan was begun that year, and it was completed ahead of schedule in 1978. Unity Credit Union was formally removed from supervision early in 1978. Under the excellent management of Breton and with the active support of its board, the credit union continued to grow and prosper and, by the time he resigned as manager in 1982, assets had reached $28 million and loss exposure was less than one-half of one per cent. In spite of some hard feelings at the peak of the credit union's crisis, most members remained loyal and supportive.

Unity Credit Union in [illegible]. It successfully recovered from financial difficulties during the 1970s with assistance from the Mutual Aid Board.

The Mutual Aid Board learned several lessons from the experience at Unity. Its supervision policies have become more flexible, with interest-free loans being large enough to allow a more rapid recovery of reserves, and operational controls being less restrictive. As Breton pointed out several years after the problem had been resolved, the Board did all the right things, but it was too tough at the beginning.

In addition, the Board has shifted its emphasis to monitoring and prevention in an attempt to head off problems before they reach the crisis level. Even so, some financial losses, such as those at University Credit Union in the early 1980s, will probably always occur. Even the most sophisticated monitoring system depends on the commitment and integrity of the people feeding reports into it. In a democratic structure such as a credit union, the primary responsibility of the management is to the board and members. If, for whatever reasons, there are failures at the management level, the Mutual Aid Board can do no more than prepare itself to correct any problems that develop, while protecting the deposits of the members. In its first 30 years, the Board met every challenge that arose.

New credit union development

While ensuring the continued financial health of existing credit unions and guaranteeing deposits of their members have been the primary objectives of the Mutual Aid Board, the issue of new credit union development has been a concern as well. The vast majority of credit unions were established in Saskatchewan during the 1940s and 1950s, after the mid 1960s the number of credit unions in the province began to decline. The number of dissolutions and amalgamations grew and the Mutual Aid Board became involved in many of these cases.

Growth of the credit union system accelerated during the late 1960s and 1970s, but it was primarily through the expansion of the membership bases of existing credit unions rather than the establishment of new credit unions. Many of the amalgamated credit unions became branches of other credit unions. In addition numerous new branches were established, and the Board became involved in providing financial support for branch development as well.

Some new credit unions continued to be formed, but they tended to be "special cases" of various types. For example, new caisses populaires were established to serve the French speaking populations in Saskatoon and Regina. In addition, there was discussion in Regina about the possible formation of a credit union for professionals such as doctors and lawyers, similar to the Professional Financial Savings and Credit Union established in Winnipeg in 1980.

Legislation regarding the creation of new credit unions had not been altered significantly since 1937: a credit union could be established by as few as 10 members and have assets of as little as $50. However, there was a

growing feeling during the 1970s that, if a new credit union lost money, it would have to be bailed out by the credit union system. Therefore, other credit unions, through the Mutual Aid Board, should have a say in setting conditions under which new credit unions were set up.

At Central's 1980 annual meeting, delegates approved a resolution calling for an amendment to the Credit Union Act to provide that the Mutual Aid Board as well as the registrar must approve any application for the incorporation of a credit union. That amendment was not made, but in 1978 the Department of Co-operation had adopted the policy of consulting the Board before incorporating any credit union.

The Board, meanwhile, had established a set of criteria for ensuring financial viability in new credit unions. For example, there had to be a minimum potential membership of 2,000 with a minimum short-range membership of 500; the short-term break-even point was assets of $2 million (later revised upwards); there had to be a need for services, a degree of understanding about credit unions and financial services was required prior to incorporation; and local need and initiative had to be demonstrated.

Anti-Poverty Credit Union

However, while the continued financial stability of the system is essential to its survival, there have always been people within the credit union system who have maintained that there is a special social responsibility to assist financially disadvantaged groups. This led to several interesting attempts to establish new special-purpose credit unions.

One such effort led to the formation of a "store front" operation known as the Anti Poverty Credit Union in Saskatoon in 1973. It was formed with seed money of $1,000 contributed by Saskatoon Credit Union, and some funds on deposit from a local church. The credit union was intended to provide a counselling service on money management and budgeting, and offer low interest loans to applicants with no collateral and, most often, no prior credit rating. The rationale behind this venture was that many single parents with low family incomes and people on welfare were forced to borrow money at high rates of interest from finance companies or loan sharks. The new credit union would provide an attractive alternative for these people.

The experiment lasted for five years, during which counselling services and loans were provided for nearly 1,000 people. But the credit union lost money steadily and, in 1978, 60 per cent of its loans were in arrears. The credit union was dissolved in that year, with deposits and certain loans being taken over by St. Mary's Credit Union in Saskatoon. The losses, amounting to about $13,500, were absorbed by the Mutual Aid Board.

According to the credit union's manager, Doreen Russell, one reason for the failure of the experiment was the stigma of being a member of the credit union. Another argument put forward by a supporter of the concept

Maria Fischer, newly appointed secretary-treasurer of the Anti Poverty Credit Union in Saskatoon in 1973, accepts the certificate of incorporation from Ted Prefontaine, one of the founders of the credit union.

was that the credit union had always been too short of capital to provide adequate help for low income people. Total assets rarely exceeded $50 000; loans were limited to a maximum of $500 and, in fact were rarely more than $200. Members were unable to finance basic purchases such as furniture, appliances or cars.

The Mutual Aid Board, in recommending dissolution of Anti Poverty Credit Union, took the position that income tax, counselling and loan services for low income groups could be provided more effectively through special programs of existing, well-established credit unions, as was being done in Regina and Prince Albert. There, credit unions had developed contractual relationships with local self-help and welfare rights organizations to provide many of the same services as those carried out by the Anti Poverty Credit Union.

Northern credit union development

Another dilemma faced by the system is related to the problems of developing credit union services in northern Saskatchewan.[12] The problems are related to the nature of the northern economy and demography. The northern population is small and scattered over a large area, with few

settlements of any significant size. In addition, the northern population, both native and non-native, tends to be highly transient. Most salaried income is provided either by government services or mining ventures, both of which are rather unstable, since they are subject to changes in government policies and fluctuations in natural resource markets. In addition, most of the earnings from mining operations do not remain in the north. The other major source of income in the north is welfare payments from governments, and there is not a tradition of saving money among native populations.

Since development of new credit unions is normally associated with local initiative, a stable local population and economy, and an ability to generate a local capital base sufficiently large to support a viable operation, the prospects for credit union development in northern Saskatchewan are not promising. Indeed, the situation across northern Canada is similar. Credit union movements in Yukon and the Northwest Territories failed and the Saskatchewan system absorbed part of the losses suffered there. In northern Saskatchewan, credit unions started in Buffalo Narrows and Cumberland House during the 1960s never became financially healthy and were dissolved in the mid-1970s, with the Mutual Aid Board covering their losses.

Prince Albert Credit Union opened a branch in LaRonge, the chief administrative centre in northern Saskatchewan, in 1974. While assets at the branch had grown to $12 million by 1982, the branch had not shown a profit.[13] Meanwhile, chartered banks showed no interest in subsidizing banking operations in the north. In 1982, there were only three bank branches in all of northern Saskatchewan, and one of them was in the process of closing.

However, although there did not appear to be much likelihood of northern credit unions ever becoming viable operations, there has always been a certain amount of political and social pressure on the credit union system to initiate financial services for northerners. In the northwestern area, many people would travel hundreds of miles south to Meadow Lake to cash cheques or borrow money. In other areas, people had no alternative but to make use of very limited and costly financial services at Hudson's Bay Company posts. There was a desire for full-service credit unions, not just savings and loan services.

In 1978, Central joined the federal and provincial governments in setting up a steering committee to consider strategies for the development of northern credit unions. Because any new credit unions would become a contingent liability for the Mutual Aid Board, it was to be involved in any decision making as well.

Since LaRonge, Uranium City and Buffalo Narrows were the trade and administrative centres of the North, it was felt that full-service financial institutions would only be possible in these communities in the foreseeable

The old Buffalo Narrows Credit Union during the 1960s

future, while some limited services might be provided in several smaller centres.

Buffalo Narrows was the only one of the three larger centres with no on-site financial services, so a proposal was developed in 1979 for the establishment of a new credit union there. It involved the placement of an interest free deposit of $1.25 million in the credit union for three years by the provincial government's Department of Northern Saskatchewan (DNS). After that, a reduced rate of interest would be paid on the deposit for a 10-year period. The earnings from this deposit would be used to underwrite development costs and allow limited reserves to be built up at the credit union.

The proposal was not acted upon, and negotiations continued between the government and Central regarding other possible alternatives. Further delays to development of the scheme resulted from the election of a new provincial government in 1982 and its subsequent dismantling of much of the Department of Northern Saskatchewan and integration of DNS functions with those of other government departments. DNS had been the most active promoter of the idea of developing special financial services for the north.

Despite the delays, it would be unfair to assume that the proposals have effectively died, or that the credit union system has grown more concerned with "playing it safe" than with introducing credit union services to people who need them. The LaRonge operation is evidence that one credit union has been willing to provide services to the north at a cost to itself. But, given the many complexities of development in the north, any plans to expand services must be carried out carefully.

Theme for the future self-regulation

After 30 years of operation, the Mutual Aid Board had evolved programs and policies that left it in good shape to carry out its mandate. When the new management team assumed responsibility for Board duties from John Barr and Paul Dosch in 1982 the Board began a series of planning sessions. While this was the first major planning exercise by the Board in some five years, it did not signal the development of any major new thrusts Essentially the pattern for future development of the Board and the Fund was established with its restructuring in 1977 78. Its purpose and objectives have remained the same, although strategies continue to be refined and developed As Peter Wouters described it in 1983 the foundation had been built, and work was progressing on the framing of the structure

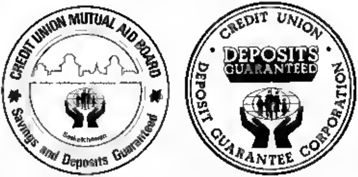
If there was an overall theme to the operations of the Board after 30 years, it was probably summarized in the frequently used term "self regulation" The term refers in part to the relationship between the credit union system and the government the system had, over a period of nearly five decades, achieved a size and level of maturity that allowed it to manage its own affairs to a degree that was not possible in the early years This self regulating capability was due, in large measure to the impressive achievements of the Mutual Aid Board in its first 30 years of existence.

But the term also refers to the relationship between the Board and credit unions. In its earlier years the Board concentrated on problem-solving and rehabilitation of credit unions in financial difficulties These functions have continued but they threaten to create an increasing drain on the financial and other resources of the entire system As a result, the Board has since the 1960s placed increasing emphasis on preventive measures, and it has been shifting more of the onus for problem solving to credit unions, in effect passing on increased responsibility for self regulation to them. As deposit guarantor the Board's primary responsibility is to the credit union member but the credit union itself is the first line of defence in protecting member's deposits.

Public image

There is another, less easily measured, aspect to deposit protection Good management and sophisticated internal operational monitoring and control systems go a long way toward ensuring that deposits are safe, but the survival of any deposit taking institution also depends on public confidence and trust. Confidence is difficult to build and it is easily shattered

To some extent the concern within the credit union system about acquiring government deposit insurance through the Canada Deposit Insurance Corporation was related to this issue The deposit insurance itself would not have increased the level of protection, in fact, existing deposit protection provided by the Mutual Aid Board was significantly more


CREDIT UNION MUTUAL AID BOARD
Saskatchewan
Savings and Deposits Guaranteed
CREDIT UNION
DEPOSITS
GUARANTEED
DEPOSIT GUARANTEE CORPORATION

The logo of the Mutual Aid Board (left) and its replacement following the adoption of the name Credit Union Deposit Guarantee Corporation in 1983

comprehensive. But there was concern that the public would be led to believe that any deposits not covered by CDIC were not safe.

Such concerns were not entirely unfounded. For example, in 1976, a report by the Economic Council of Canada on the Bank Act review recommended uniform federal deposit insurance coverage through CDIC. It went on to claim that all credit unions outside of Quebec had no deposit insurance and that their reserves fell considerably short of providing an adequate substitute for deposit insurance. In British Columbia, which was mentioned specifically by the report, the credit union system braced itself for a possible run on deposits, while at the same time issuing public statements that its reserves were completely adequate. A potential crisis caused by incorrect information was averted, although perhaps the nerves of some harried credit union officials were unnecessarily shattered. There have been other similar incidents.

In Saskatchewan, the Mutual Aid Board has maintained a low public profile, preferring to work behind the scenes to maintain a stable credit union system in which deposits would be safe. But in 1968, when banks and other financial institutions began to advertise their links with CDIC, the Board decided to introduce plaques and decals that could be displayed in credit unions. Those early advertisements included the message: "Member — Mutual Aid Fund — Saskatchewan Credit Unions — Protecting your shares and deposits." This program continued and, particularly after the amendments to the Credit Union Act in 1977, the concept of a full deposit guarantee became a more prominent part of the advertising message. Marketing packages, including television and newspaper advertisements, brochures, counter cards and letters to members, were also introduced.

Another aspect of developing a positive public identity for the role of the Board was the decision to adopt a new name. The issue first came up in

1965, when there was a proposal to adopt the name "Credit Union Stabilization Fund" which would conform with the name being adopted in some other provinces and states. That suggestion was turned down by the Board.

A new proposal in 1982 was based on the public image issue. It was felt that although the term "Mutual Aid" was understood within the credit union system, it meant little to the public. The proposal to adopt the trade name "Credit Union Deposit Guarantee Corporation" was approved by the Board and legislation was amended to permit its use in 1983. While the legal name of the body continued to be "Mutual Aid Board", it was the policy of the Board to make increasing use of the term "Deposit Guarantee" in future.

A national stabilization fund?

To some extent, the desire to promote the deposit guarantee concept in Saskatchewan resulted from concern that negative publicity surrounding credit union systems and other financial institutions in some other provinces might spill over into Saskatchewan, even though the system itself was healthy. Beyond that, however there has always been a recognition of the fact that no provincial credit union system can isolate itself from what is happening elsewhere. A strong argument has long been made for extending the principle of "mutual aid" beyond provincial boundaries.

As early as 1959, Al Snell had suggested that there might be some merit in considering the idea of a national stabilization fund, although the international fund being discussed at the time seemed premature. In subsequent years, financial assistance was provided across provincial boundaries for credit union systems experiencing difficulties in Ontario, Newfoundland, Yukon and the Northwest Territories. Saskatchewan, as one of the healthiest provincial systems, saw some benefits in establishing some formal mechanism for providing such assistance.

In 1973, a committee with representatives from four provinces, including Saskatchewan, was set up by the National Association of Canadian Credit Unions (NACCU) to study the establishment of a national stabilization fund that would essentially provide stabilization in the form of a liquidity pool for provincial centrals.

In 1975, a national stabilization conference was organized by NACCU to discuss the tax issue, and review the financial and legislative structures of provincial funds and their relationship with the Canada Deposit Insurance Corporation. Co-ordination of efforts by individual funds was also discussed.

In 1977, NACCU was amalgamated with the Canadian Co-operative Credit Society (CCCS), and the financial resources of the new organization were greatly expanded to create a national liquidity pool. There were

suggestions that the CCCS had, in effect, become a form of national stabilization fund.

Meanwhile, a national stabilization task force was set up by CCCS to co-ordinate the development of provincial funds on a national basis, and a recommendation was made in 1979 to establish a national stabilization fund to assist in preventing losses due to credit union failure on a national scale.

There was some resistance to the idea of creating a national fund through contributions from provincial funds, and there also proved to be some legal barriers to transferring funds from one province to another. The proposal did not die, but no concrete action had been taken by 1983. Meanwhile, representatives of provincial funds did continue to meet regularly to compare notes and share experiences. Beyond that, the issue of whether or not to establish some form of national stabilization fund is likely to receive renewed attention in the future, particularly if there are new demands on credit unions systems across the country for financial assistance to provincial systems that are facing severe difficulties. Even if more provincial stabilization funds were able to negotiate lender of last resort arrangements with CDIC, a consensus may eventually be reached that additional attention should be paid to stabilization and rehabilitation at the national level.

Automation

There are other issues that the Mutual Aid Board may have to come to grips with in the future as well. A number of them are related to the increased automation of the financial industry. For example, computer fraud is a growing problem, but so little is known about it that the magnitude of the problem cannot be determined.

In 1983, the Board had no particular strategy in place to deal with computer fraud, although it was working with Central's data processing department to ensure that certain controls were built into the software. According to the Mutual Aid Board loss prevention manager, Greg Wallace, the major difference with computer fraud is that it can happen more quickly and involve larger sums of money than the more traditional types of fraud. The strategies used to deal with fraud cases would probably remain the same, although the tactics used would have to be updated.

Aside from the danger of larger losses through the abuse of computers to misappropriate funds, automation poses some rather broad questions regarding the future viability of credit unions. For example, is there any future for credit unions that do not become automated and consequently are unable to introduce services such as automated teller machines and debit cards? Beyond that, what will happen when home banking becomes commonplace and it is technically feasible for members to bypass credit unions completely and interact directly with the data base at Central? Home

computers could also add a new dimension to the democratic control system of credit unions, but the important point is that automation could lead to major restructuring of the credit union system.

A continuing need

No matter what changes do take place, however, a deposit guarantee agency will be needed for as long as there is a credit union system. In fact, the role of such an agency is likely to continue to expand in the future. In Saskatchewan, the Mutual Aid Board has built up a great deal of experience functioning as a deposit guarantee agency, and it has kept pace with changes to carry out the work expected of it by the credit union system. Given its record of success during its first 30 years of existence, there is ample reason to believe that the Mutual Aid Board will be able to cope with problems that it faces in the future. One could quite justifiably expect some future manager of the Credit Union Deposit Guarantee Corporation in reply (most likely via electronic mail) to a concerned credit union member with the same response that has been made many times in the past: "No credit union member in Saskatchewan has ever lost one cent in deposits, and we are confident that the money you have invested in your credit union is safe."[13]

Footnotes

[1] General Manager's report to the Credit Union Central board of directors, October, 1978.

[2] Mutual Aid Board, *Annual Reports*, 1977-80.

[3] Mutual Aid Board, *Annual Report*, 1981.

[4] Report to the Mutual Aid Board, December 3, 1982.

[5] *Credit Union Way*, December 6, 1979, p. 4.

[6] The loan approvals policy is explained in more detail in a management report to the Mutual Aid Board, May 29, 1981.

[7] Article by Paul Dosch in *Credit Union Way*, January 25, 1978, p. 6.

[8] *Credit Union Way*, March 26, 1980, p. 15.

[9] Management report to the Mutual Aid Board, September 24, 1982.

[10] *Credit Union Way*, June 15, 1977, p. 6-7.

[11] See *Credit Union Way*, June 28, 1978, p. 14, and letter to the editor in *Credit Union Way*, July 26, 1978, p. 17.

[12] Management report to Credit Union Central board of directors on northern development, January 26, 1982; see also a summary of Central's brief to the Key Lake board of inquiry in *Credit Union Way*, October 22, 1980, p. 9.

[13] *Credit Union Way*, October, 1982, p. 8-14.

APPENDICES

APPENDIX I

A COMPARISON OF FIVE CREDIT UNION DEPOSIT PROTECTION FUNDS IN CANADA, 1982

Name and Year Established	Assets (1982)	Percentage of system shares and deposits	Annual Assessment Formula	[illegible]ment	Board
British Columbia Credit Union Reserve Board (est. 1959)	$58 million	1.19%	Maximum 1/5 of 1% of shares and deposits. Also issues interest bearing debentures	Independent of Central	5 government-appointed members, 3 from credit union system no government representatives required
Alberta Credit Union Stabilization Corporation (est 1975)	$29.8 million	1.37%	Maximum ¼ of 1% of shares and deposits	Managed by Central	5 voting members 3 appointed by Central board 1 from credit union system 1 appointed by government 2 non voting members Central general manager and director of credit unions.
Saskatchewan Mutual Aid Board (Credit Union Deposit Guarantee Corporation) (est 1953)	$32.8 million	1.12%	Maximum 1/5 of 1% of shares and deposits	Managed by Central.	5 members 2 appointed by Central board Central general manager 2 government representatives.

Name and Year Established	Assets (1982)	Percentage of system shares and deposits	Annual Assessment Formula	Management	Board
Manitoba Credit Union Stabilization Fund (est. 1965 became mandatory fund 1970)	*	*	Maximum ¼ of 1% of shares deposits and liabilities.	Independent of Central	5 government appointed members; chairman, 2 representatives of credit union system 2 representatives of government No directors or employees of Central or any credit unions.
Ontario Share and Deposit Insurance Corporation (est 1977)	$45.6 million	0.92%	1% of shares and deposits. Adjusted annually to maintain that level	Independent of Centrals	9 government appointed members 3 nominated by Central 3 nominated by caisse populaire federation, 3 independent.

* *Comparable asset figures not available.*

APPENDIX I (Continued)

Name	Powers	Inspection	Share and Deposit Guarantee	CDIC Lender of Last Resort Facility
British Columbia Credit Union Reserve Board	Can place credit union under supervision or administration direct to amalgamate or dissolve Credit Union can appeal to government tribunal.	Inspects credit unions under supervision. Government inspects all other credit unions.	Unlimited	Yes
Alberta Credit Union Stabilization Corporation	Credit unions in deficit position can be placed under supervision and control	Inspects all credit unions. Government has monitoring function	Unlimited	Yes
Saskatchewan Mutual Aid Board	Can place credit unions under supervision or administration. Normally done only if danger of loss to Fund	Government inspects all credit unions. MAB monitors performances closely	Unlimited	Yes
Manitoba Credit Union Stabilization Fund	Credit unions in deficit position can be placed under supervision.	Is auditor of credit unions, with audit firms acting as agents. Government conducts examinations	Unlimited	No
Ontario Share and Deposit Insurance Corporation	Can take a credit union under direction, operating and managing it. Director of credit unions can compel credit union to liquidate. May use advice of OSDIC	All credit unions not required to have an external audit are examined	$60,000 maximum	No

GROWTH OF CREDIT UNION SYSTEM AND MUTUAL AID FUND ASSETS, SASKATCHEWAN, 1953-1982

Year	Total Number of Credit Unions	Total Assets	Members	MAF Assets	MAF assets as percentage of system assets
1953	268	$ 28 471 111	68 286	$ 22,972	0 08%
1954	279	29,467 356	75 854	55 960	0.19%
1955	284	32,356 118	80 396	90,112	0.28%
1956	283	38 646 038	86,036	127 181	0 33%
1957	284	44 825 002	92 981	170,505	0.38%
1958	279	56,450 159	103 289	222,842	0 39%
1959	276	71 681 185	117 777	270,000*	0 38%
1960	278	88 778 288	137 012	330,509	0.37%
1961	282	110 664 250	156 492	460,632	0 42%
1962	285	141 027 142	171 949	636,979	0.45%
1963	292	167 923 331	191 192	871 702	0.52%
1964	296	208 552 983	212 280	1 129 094	0 54%
1965	301	257 239 927	236 338	1 547 550	0 60%
1966	299	293 080 447	259 994	1 880 883	0 64%
1967	289	363 791 794	283 491	2,419 143	0 66%
1968	287	387,263 370	302,471	3,008 005	0 78%
1969	278	394 806 987	310,915	3 735 720	0.95%
1970	266	406 838 884	319 656	4,612,461	1 13%
1971	261	478 819 122	336 194	5 500 126	1 15%
1972	257	608,573 841	355,276	6,276 958	1.03%
1973	254	823,614 913	377 077	7 115 580	0.86%
1974	252	1 034,547 900	396,474	8 505 397	0.82%
1975	247	1,341 702,974	426,279	10 167 359	0 76%
1976	245	1,550,409,614	458 284	12 102,457	0 78%
1977	240	1 764,251,231	483 518	14 618 211	0 83%
1978	238	2,081 920 432	516 719	17 479 055	0.84%
1979	237	2,383 673,755	546 472	21 467 114	0,90%
1980	230	2,625 813 858	561 009	25 726,611	0 98%
1981	227	2,843 053 752	576 835	30,899 758	1 09%
1982	224	3 115,497,361	563,323	32,812 983	1 05%

Sources Department of Co operation and Co-operative Development Province of Saskatchewan Annual Reports and Mutual Aid Board Annual Reports

** 1959 Mutual Aid Board Annual Report was not available this is only an estimate*

APPENDIX III

MEMBERS OF THE MUTUAL AID BOARD, 1953-1983

(Includes interim appointments)

Name	Years	Office	Represented
BINGHAM, Ken	1971-74		Credit Society
BROMBERGER, Norm	1977	Vice-chairman 1977	Credit Society
BUNN G R (Ron)	1963-67	Chairman 1964-67	League
COLFRON Ernest	1953-63		League
DELGATTY Bernie G	1955-63	Chairman 1960-63	League
FOLSTAD Dale	1982-83		Co-op Dept
GALLAGHER, Angus	1963-66		League
GEBERT Ed	1970-77	Chairman 1971-75; Vice-chairman 1975-77	Credit Society
GEMMEL, Harry	1966-70		League
HANSEN Chris	1973-79	Vice-chairman 1973-75 Chairman 1975-79	Credit Society
HOWARD, A. Grant	1953-54		League
JOHNSON Barney	1953-63		Credit Society
JONES, H	1977-78		Finance Dept
KEEP Vic	1977	Chairman 1979-	Credit Society
LAWRENCE Henry L.	1954-60	Chairman 1955-60	League
LEWIS, C E. (Cec)	1963-71	Chairman 1968-71	League/Society
LOKKEN Lloyd	1975-78		Co-op Dept.
MacLEAN A C. (Mac)	1953-57	Vice-chairman 1953-57	Co-op Dept
MARCOTTE, Ray J	1968-77		League/Society
MEIKLEJOHN Morley	1978-		Finance Dept.
MITCHELL, Grant	1981-82		Co-op Dept
MULHOLLAND, Al	1981		Co-op Dept.
NEVILLE, Ray	1960-63		League
NIELSEN Gordon J	1953-55	Chairman 1953-65	League
READER Bill	1983		Co-op Dept
REED Jack	1978-81		Co-op Dept.
ROBINSON Glen R.	1974-75		Co-op Dept.
SAMPSON Phil	1970-73	Chairman 1973	Credit Society
SHIELDS Jack	1963-70		Credit Society
SNELL, C A (Al)	1957-73	Vice-chairman 1957-73 Chairman 1963	Co-op Dept.
STEINSON Ed	1973-74		Co-op Dept.
TENDLER, Les	1979-		Credit Society
VANIN Sam	1974-77		Credit Society
VINEK, John	1979		Credit Society

SECRETARY-TREASURERS/MANAGERS OF THE MUTUAL AID BOARD, 1953-83

Name	Years
ERIKSEN Michael	1953-56
NIELSEN Gordon J	1956-58
AVRAM Percy	1958-59
CHARBONNEAU G A. (Al)	1959-65
JOHNSON Baldur	1965-70
TENDLER Les	1970-72
BROMBERGER Norm	1973-77
PAVELICK, Don	1977-78
BARR John	1978-82
WOUTERS Peter	1982-

DIRECTORS OF OPERATIONS OF THE MUTUAL AID BOARD, 1978-83

Name	Years
DOSCH Paul	1978-82
CUNNINGHAM, Ed	1982-

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This is the story of 30 years of achievement: the fulfillment of wise planning and sound financial management."

—John Barr, former manager of the Mutual Aid Board

Dennis Schroeder has been senior writer with *Credit Union Way* magazine in Regina since October, 1981. He is a former editor and publisher of a weekly community newspaper in Ontario, and has been involved in the editorial production of numerous newspapers, magazines and books for organizations in Canada, the United States and East Africa. He has also worked as a freelance writer and researcher

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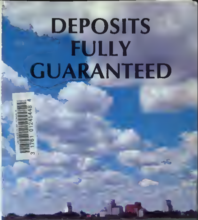

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A History of Saskatchewan's
Credit Union Mutual Aid Board
1953-1983

By DENNIS SCHROEDER

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Preface and Acknowledgements

When Ed Cunningham assumed the position of director of Saskatchewan's Credit Union Mutual Aid Board from Paul Dosch in 1982, Dosch passed on to him a "symbol" of the authority of his job — a fireman's hat, complete with a flashing light and a Mutual Aid Board logo. While the Mutual Aid Board is not exactly the "fire department" of the credit union system, there are some similarities. Like a fire department, the Board does respond to emergency situations in credit unions when there is a possibility that the shares and deposits of credit union members may be placed in jeopardy. Also, like an efficient fire department, the Board has developed a set of measures designed to prevent future crises. Unlike a fire department, the Mutual Aid Board doesn't just fight "fires", it also serves as an insurance company that provides a guarantee against potential losses.

This book is an account of the history of the Mutual Aid Board, which pioneered the concept of deposit protection within the credit union movement in North America and has been a leader in refining and developing that concept. In May, 1983, the Mutual Aid Board marked its 30th anniversary, making it the oldest continuously operating credit union deposit protection fund on the continent. In that same month, provincial legislation was amended to permit the Board to assume a new name that more clearly identifies its primary function — the Credit Union Deposit Guarantee Corporation. The name change may signal the beginning of a new era in the life of a body that has matured and is playing an increasingly important role in the credit union system of Saskatchewan.

One note on the name: since this book describes the history of the organization during its first 30 years when it was known as the Mutual Aid Board, that name is used throughout the book.

The reader who knows little or nothing about the Mutual Aid Board can find in Chapter 1 a brief description of what the Board is, what it does, and how it fits into the overall credit union system. A reading of the other five chapters will provide an understanding of how the Mutual Aid Board developed during its first 30 years. Chapter 2 sets the stage by tracing briefly the development of the co-operative and credit union movements both in Saskatchewan and elsewhere. The actual history of the Mutual Aid Board begins in Chapter 3, where the formative events of the 1950s are described. For the most part, developments during the 1960s are covered in Chapter 4, while the events leading up to the highly significant legislative amendments of 1977 are covered in Chapter 5. In the final chapter, several issues and developments that helped to shape the Mutual Aid Board during the 1970s and early 1980s are singled out for special attention.

While a particular perspective has been imposed on this historical account by the author, the book is based on many bits of information gleaned from research and from discussions with people actively involved in the development of the Mutual Aid Board and related credit union organizations. I would like to thank the members of the book advisory committee for their guidance and assistance in making this project a reality. They are Eldon Anderson, corporate secretary and manager of public affairs with Credit Union Central of Saskatchewan, Ed Cunningham, director of the Mutual Aid Board, Norm Bromberger, chief executive officer of Central, and Les Tendler, president of Central and general manager of Sherwood Credit Union in Regina. The latter two are also members of the Mutual Aid Board. Special thanks to Eldon Anderson also for making available photographs from his extensive collection.

Others who shared their insights and perceptions with the author include John Barr, the first manager of the Mutual Aid Board, Vic Keep, chairman of the Board, Dale Folstad and Morley Meiklejohn, who represented, respectively, the Department of Co-operation and Co-operative Development and the Department of Finance on the Board, Peter Wouters, Central's vice-president in charge of Mutual Aid Board operations, Greg Wallace, Doug Glessing and Gail Dell, the other members of the Mutual Aid Board management team, Al Mulholland, Glen Robinson and Walter Safinuk of the Department of Co-operation and Co-operative Development, Al Charbonneau, chief executive officer of the World Council of Credit Unions, and Baldur Johnson, chief executive officer of Credit Union Central of Alberta, both of whom played an important part in the development of the Mutual Aid Board and the Saskatchewan credit union system during the 1960s, Con Plemel and Bill Rossmann, former leaders of St. Gregor Credit Union, Mike Kinaschuk of Arran Credit Union, Leon Breton, formerly manager of Unity Credit Union, Barney Arnason, for many years Deputy Minister of Co-operation and one of the pioneers of the credit union movement in Saskatchewan, Ross Mont gomery, general manager of the B.C. Credit Union Reserve Board; Del Ross, who was associated with the CUNA stabilization fund in the United States; and Joe Dierker, legal counsel for the Board.

I would also like to thank Jim Duggleby, editor of *Credit Union Way* magazine, for his forbearance and patience, and for rescheduling magazine work assignments to allow me time to work on this project. In addition, the encouragement and understanding attitude of my wife, Stephanie, were of great assistance.

While a book of this size cannot be a complete history of the Mutual Aid Board, and perhaps does not do justice to all the people involved in developing the Board, I believe it does help to fill a gap in the recorded knowledge of Saskatchewan's credit union system. If it helps in any way to increase the reader's understanding of one of the most vital aspects of the credit union system — the deposit protection function — then the efforts made to produce this book can be considered to have been worthwhile.

Dennis Schroeder
July, 1983

A Chronology of Events Affecting the Development of the Mutual Aid Board

1950 — Defalcations discovered at Arran and St. Gregor credit unions
1951 — "St. Gregor fund" set up by Credit Union League of Saskatchewan, permanent stabilization fund proposed
1952 — Amendment to Credit Union Act passed by Saskatchewan legislature creating Mutual Aid Fund. Fund approved overwhelmingly in a poll of credit unions
1953 — Provincial government order-in-council May 8 establishing Mutual Aid Board to administer Fund. First Board meeting May 22. Gordon Nielsen elected first chairman.
1954 — Interest-free loans to St. Gregor and Arran credit unions are first financial assistance provided by Board
1959 — Grants to St. Gregor and Arran credit unions, ending their financial difficulties
1961 — League sets up collection service. Board later contracts its services in dissolution of credit unions.
1962 — Credit union submissions made to Porter Royal Commission on banking. Commission recommends mutual aid funds for all credit unions. Revised Credit Union Act passed, permitting revolving fund, and permitting Board to act as liquidator of credit unions.
1963 — League sets up Development Fund with financial assistance from Mutual Aid Board.
1964 — Mutual Aid Fund reaches $1 million, and revolving fund begins.
1967 — Canada Deposit Insurance Corporation established. Credit union stabilization funds denied membership. Carter Royal Commission recommends taxation of credit unions.

1970 — Amalgamation of League and Saskatchewan Co-operative Credit Society completed

1971 — Role committee set up, with representation from Mutual Aid Board, Credit Society and government Consultations are continued by a variety of committees and task forces.

1972 — New Income Tax Act introduces taxation of credit unions Revised Credit Union Act passed in legislature revolving fund terminated new assessment formula adopted, Board becomes involved in bonding and insurance Central Credit Committee established, Board given supervision powers Management contract with Credit Society replaces nominal administration fee

1973 — Unity Credit Union first to be placed under supervision Financial difficulties resolved successfully

1974 — Mutual Aid Board arranges lender-of-last-resort facility with CDIC New supervision, amalgamation, financial assistance, investment policies drafted for Board "Probability of distress" computer model first used on Mutual Aid Fund

1977 — Credit Union Act amended. unlimited guarantee of shares and deposits formally stated for the first time, and Board powers expanded and clarified Integrated Monitoring System begun as pilot project and expanded in later years

1978 — Credit Union Central reorganized to create MAB Division John Barr appointed first manager of Mutual Aid Board

1983 — Board adopts trade name Credit Union Deposit Guarantee Corporation

CHAPTER ONE

The Mutual Aid Board: What is it?

In 1967, a worried credit union member in Saskatchewan wrote a letter to the Credit Union League of Saskatchewan. In the letter, he said "My wife and I have over $6,000 invested in our credit union. We recently lost $2,000 we had invested in a finance corporation in Ontario and as a consequence have 'cold feet'. Would you please let us know just how safe our money is."

The League's managing director, Baldur Johnson, personally replied to the man. He wrote "Since Saskatchewan credit unions began in 1937 no member has ever lost one cent in deposits or share capital." He went on to list a variety of reasons for this achievement and concluded his letter by saying "By reason of our past record and the safeguards which have been built into credit union operations, I am confident that the money you have invested in your credit union is safe."

The concerns expressed by that man in 1967 have been felt by numerous other people as well. But the reply by Johnson could still be made today, no credit union member in Saskatchewan has ever suffered a loss of deposits or shares[1]. In fact, since 1967, safeguards protecting members' money have become more comprehensive and more sophisticated.

One of the major reasons for this remarkable achievement by the Saskatchewan credit union system is the work of a little-known body called the Credit Union Mutual Aid Board (MAB), which administers the Mutual Aid Fund. The primary task of this body is to guarantee the deposits of all credit union members in the province, and it has carried out this task successfully since it was established in 1953.

The credit union

The Mutual Aid Board is one vital element in the total credit union system, which is really an integrated network of institutions linked together in a variety of ways. The basic organization — the one that most people deal with on a day-to-day basis — is the credit union.

A credit union is a particular type of co-operative organization that provides a range of financial services to its members. The services are similar to those of most other financial institutions, such as chartered banks, trust companies, and finance companies. Credit unions accept deposits of money, through a variety of types of deposit accounts, and they lend money. They also offer services such as safety deposit boxes, traveller's cheques, money orders, and much more. In fact, several of the services now commonly provided by Canadian financial institutions, such as daily interest savings accounts, were pioneered by credit unions.

The primary difference between credit unions and other financial institutions is in their purposes. Most financial institutions are set up as business corporations intended to earn a profit for their shareholders. In the case of credit unions, all the people who make use of their services are also member-owners, so credit unions are essentially non-profit organizations providing services to their members at the lowest possible cost.

A credit union is a corporation established, in Canada, under provincial legislation and operated by people in accordance with the principles and philosophy of the co-operative credit union system. The Credit Union Act in Saskatchewan, passed in 1937, described the purposes as follows: "The objects of a credit union shall be the promotion of thrift among its members and the creation of a source of credit for its members, at legitimate rates of interest, exclusively for provident and productive purposes."

The commonly accepted principles that guide credit unions include the following:

- Membership is voluntary and there is no discrimination on the basis of color, creed, politics, etc., as to who may join within the common bond of association;
- There is a democratic control system whereby voting privileges are vested equally among the members;
- The surplus is distributed among the members on the basis of a limited rate of dividend on invested capital plus, in some cases, a rebate of the amount of loan interest paid;
- To encourage thrift through savings and thus to provide loans and other member services, a fair rate of interest is paid on savings and deposits, within the capability of the credit union.[2]

From the time the first credit unions were established, the concept of a common bond of association for members has prevailed. There are three general types of common bond: the occupational bond, in which all

members are employed in the same business or industry, the associational bond, in which all members belong to the same professional group, trade union, society or association, religious group or ethnic group and the residential bond, where all the members live in the same community or district. All these forms of common bond exist in Saskatchewan, but the community credit union, often with several branches, is most common.

Central organizations

Just as individual people grouped together to form credit unions, so also credit unions throughout Saskatchewan are linked to each other through their membership in a common organization, the Credit Union Central of Saskatchewan. This organization, which emerged following the amalgamation of the Credit Union League of Saskatchewan, mentioned earlier, and the Saskatchewan Co-operative Credit Society in 1970, serves as both a trade association, and a kind of "central bank" for credit unions, and is also a source of financing for co-operative organizations.

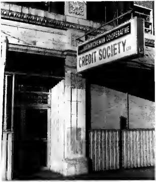
Central acts on behalf of credit unions in legislative matters, and provides them with services in the area of credit union development, human resources training and development, marketing programs, information sharing, centralized purchasing of supplies, and the operation of an electronic data processing system. Credit unions are also able to deposit temporarily surplus funds and invest reserves with Central, and funds from Central are loaned to credit unions, co-operatives and various other organizations and businesses.[3] In addition, Central provides cheque clearing facilities between credit unions and other financial institutions, and is the means by which credit unions are linked to the Canadian Payments Association, the national clearing system for all financial institutions.

Central is owned by its member credit unions and co-operatives, and is controlled through a democratic structure whereby its board of directors is responsible to delegates elected by credit unions and co-operatives at the sub-district and district levels. Provincial centrals and various financial co-operatives throughout Canada own and control a third-tier organization, the Canadian Co-operative Credit Society (CCCS), which provides financial and other services to credit unions and co-operatives at the national level. CCCS, in turn, represents Canadian credit unions on an international body, the World Council of Credit Unions.

How the Mutual Aid Board fits in

The Mutual Aid Board is one of several interrelated "lines of defence" in a fairly complex system that is designed to provide a full guarantee of all members' funds on deposit with Saskatchewan credit unions.

The first line of defence is in the credit union itself. The two main reasons why credit unions, or other financial institutions, fail are a lack of



The Co-op Block in Regina was the home of the Saskatchewan Co-operative Credit Society for nearly 30 years from the early 1940s until 1972. The Credit Union League of Saskatchewan, Sherwood Credit Union and several co-operative organizations also had offices in the building.

liquidity (cash and assets that are readily convertible to cash) and an inability to operate on a positive income basis. In the first case, the credit union can't meet its members' demands for cash. In the second case, it doesn't have an adequate capital base (share equity plus retained earnings) to carry it through the tough times when its financial margin (the margin between what it earns and what it must pay for money) is narrowed, or to withstand significant loan or investment losses.

With regard to liquidity, a credit union must carry out a balancing act. A liquidity shortage leads to severe operational difficulties. But excess amounts of cash and highly liquid assets reduce the credit union's ability to earn adequate interest, thus making it difficult to pay competitive rates on deposits. The minimum required level of liquidity in Saskatchewan, set by provincial credit union legislation, is 10 per cent of all share and deposit liabilities. Credit unions have been increasing their liquidity levels and, by the end of 1982, they exceeded the statutory liquidity level by $435 million, which was 14 per cent of total system assets.[4]

Because of fluctuations in liquidity levels and variations between credit unions, Credit Union Central maintains a provincial "liquidity pool" with funds invested in it by credit unions. The federal Cooperative Credit Associations Acts sets out certain requirements for levels of liquidity held by provincial centrals. However, the Canadian credit union system felt a need to go beyond those requirements and the centrals agreed to begin a formalized national liquidity management program in 1983. The formula called for the centrals to hold six per cent of their provincial credit union assets on an operating basis in liquid investments. In addition, two per cent of Canadian credit union assets were to be held in liquid investments by CCCS.[5]

With regard to a credit union's capital base, the balancing act required for liquidity management is not necessary: the larger the capital base, the stronger the credit union will be financially. Equity and retained earnings provide the credit union with a reservoir of low cost funds that can be used to improve the overall margin and enable greater growth. It also provides a cushion against losses, and helps to build confidence in the credit union on the part of depositors, potential lenders and regulatory agencies.

In Saskatchewan, total credit union capital had grown to $115 million by 1982, doubling in just four years. The capital-asset ratio had improved from 2.2 per cent in 1975 to 3.7 per cent in 1982.[6] This ratio was better than that of other provincial credit union systems, as well as Canadian chartered banks, where the ratio had declined during the same period.

The credit union system set for itself the goal of raising the level of capital to five per cent of total assets; one plan set targets of three per cent in retained earnings and two per cent in equity. In Saskatchewan, retained earnings had reached the three per cent level by the early 1980s, but there was still a need to build up share equity levels.

A central reserve fund

The second line of defence for members' deposits is the Mutual Aid Fund, which is, in effect, a central reserve fund to which all credit unions contribute annually. By 1982, this fund had reached $33 million, so that, combined with the retained earnings and equity already built up by credit unions, the total had reached 4.8 per cent of all credit union assets in

This building in Regina was completed and became the home of the Credit Union Central of Saskatchewan in 1976. All of Central's facilities and services including the management of the Mutual Aid Board (Credit Union Deposit Guarantee Corporation) are located in the building. The Department of Co-operation and Co-operative Development also has its offices there.

Saskatchewan by 1982. This level had been growing steadily from 3.5 per cent in 1977.[7]

In addition, there is a third line of defence. Beyond the comprehensive set of deposit protection mechanisms built into the credit union system itself, governments provide an implicit guarantee of depositors' funds. The federal government, as regulator and manager of the money supply, has an interest in ensuring the confidence of depositors, since that is essential for the stable functioning of the economy. It has demonstrated, on a number of occasions when financial institutions have failed, that it will act to protect deposits.

Federal government support for depositors in financial institutions is normally channelled through the Canada Deposit Insurance Corporation (CDIC). The credit union system is not covered by federal deposit insurance, as is the case with chartered banks and numerous other financial institutions. This means that credit union members' deposits are not covered by the CDIC deposit insurance which has an upper limit of $60,000, but rather by the *Mutual Aid Board which provides an unlimited guarantee of all*

savings and deposits (including accrued interest or dividends) of Saskatchewan credit union members.

At the same time, the credit union system is now recognized by the federal government as being a significant part of the monetary economy, and it is understood that a major financial failure in the credit union system could have an impact on the rest of the economy As a result, both the Mutual Aid Board and Credit Union Central of Saskatchewan have been authorized to enter into agreements with the CDIC providing for it to act as lender of last resort Under provisions of the federal Cooperative Credit Associations Act, should there ever be a temporary shortage of liquidity in Saskatchewan credit unions the CDIC could lend up to $200 million to the Mutual Aid Board or Central to meet short-term liquidity requirements.[8]

Provincial governments, which have jurisdiction over credit unions, also have an interest in ensuring that deposits are well protected In 1982, the government of Manitoba provided financial assistance to the stabilization funds of the credit union and caisse populaire systems when those funds became depleted In Saskatchewan, where well over half of the entire population hold deposits in credit unions, it is likely that the provincial government would also take action to protect members' deposits in credit unions if no other alternatives were adequate.[9]

The safeguard mechanisms that are in place and the level of reserves in Saskatchewan make the need for assistance from either the provincial government or the CDIC highly unlikely, but the fact remains that the potential for such assistance does exist should it ever be absolutely necessary

The Mutual Aid Board's purpose and objectives

The Mutual Aid Board has a three-fold purpose As has been mentioned already, one part of its purpose is to provide an unlimited guarantee of members' funds on deposit with Saskatchewan credit unions But it is not just a deposit insurance agency like the CDIC, which has been described as a "burial service" that winds up the operations of failed financial institutions and pays out the depositors. A second part of the Mutual Aid Board's purpose makes its expanded role clear it is to provide preventive services to avert financial difficulties in credit unions. In other words, the Board not only has a commitment to credit union members, it is also committed to the credit unions themselves, and will attempt to keep them financially healthy Closely related to that is the third part of the Board's purpose to protect the Fund itself

In keeping with the overall purpose of the Mutual Aid Board, its stated objectives[10] are as follows

People — To protect member deposits

Money — To maintain a fund that guarantees member deposits and supports services that protect the fund

Development — To communicate to credit unions, members, and the public the effective level of deposit protection, and to provide preventive services that enhance credit union financial self-reliance.

The structure and operations of the Mutual Aid Board are generally similar to those of stabilization funds in other Canadian provinces, but there are some significant differences. For a comparison of the five largest funds, see Appendix I.

Building the fund

The Mutual Aid Fund is built up through annual assessments levied on each credit union in the province. Under provincial legislation, the Board is permitted to levy a maximum of one-fifth of one per cent of shares and deposits of the credit union. The Board has not normally levied the maximum assessment, in most years it has been set at one-seventh of one per cent or less. Should the Fund fall into danger of being impaired, the Board is permitted to make one additional annual assessment of up to one-fifth of one per cent of shares and deposits.

In addition to assessments, the Fund is built up through earnings on investments. The policy of the Board is to place more than half of its investments outside of the credit union system. The theory is that a fund set up to protect the credit union system should not all be invested in that system. These out-of-system investments are mostly long and short term federal and provincial government bonds.

Another 20 to 40 per cent of investments are in Credit Union Central shares and deposits, and the remainder is in other securities, including Co-operative Trust Company of Canada shares and guaranteed investment certificates.[11]

The Fund is also used to assist credit unions in difficulties. According to the Credit Union Act, the Board is able to make loans, advances or grants-in aid to credit unions, and it can also guarantee liabilities assumed or acquired by a credit union. In 1982, about 30 per cent of the Fund was in loans rather than investments. The general policy of the Board is to make interest-free loans, and allow a credit union to use the interest earned from that money to build up its reserves. Of course, the interest-free loan policy does reduce the Fund's earning ability in order to ensure the guarantee of deposits. Nevertheless, the Board has been able to maintain the Fund at or near its goal of one per cent of total credit union system assets since the late 1960s (See Appendix II).

There are, no doubt, people who wonder how a fund that amounts to only one per cent of total credit union assets could possibly be considered to be adequate protection for members' deposits. The determination of the size of an adequate fund is based on a number of things, including the past experiences of the Saskatchewan credit union system, and of agencies such

as the CDIC and the Federal Deposit Insurance Corporation in the United States, along with comparisons with other deposit protection funds.[12]

A quantitative test of fund adequacy has also been devised. It is based on a computer model designed in the early 1970s for the Credit Union Reserve Board of British Columbia by Prof. R. W. White of the University of Western Ontario, and later adapted for use by other stabilization funds, including the Mutual Aid Fund.

The White model, in providing a simulation of stabilization fund operations, does two things. It estimates the likelihood of a credit union being in distress, and it estimates the size of liabilities to the fund as a consequence of this distress level. Inputs into the model include regional and provincial economic variables, financial market variables, and variables covering the historical operating data of each credit union.

Is there any final, conclusive proof that the Fund is adequate in size? Perhaps not. The probability of distress model and the ratios of other funds to deposits protected certainly provide useful indicators. The past experience of the Mutual Aid Board, in having been able to deal successfully with each problem that has arisen, is a further indication that it is moving in the right direction. Much of the real protection of deposits stems from the preventive and rehabilitative measures taken by the Board. To the extent that it is possible to assess the matter, the evidence is that the Fund, as it is now structured, together with other reserves in the system, is adequate to cope with anything but a massive collapse of the credit union system. The programs of the Board, described later, are designed to minimize the possibility of any major crisis.

Structure of the Board

The Mutual Aid Board, as defined in legislation passed in 1977, consists of five members, three from the credit union system and two from the Saskatchewan government. Two members are appointed by the board of directors of Credit Union Central, with one of them usually being a director. Other Board members are the general manager of Central, the deputy minister of finance, and the deputy minister of co-operation and co-operative development, or their nominees. Management is provided for the Mutual Aid Board on a contract basis by Credit Union Central.

What the Mutual Aid Board does

The functions of the Board in relationship to credit unions can be divided into two main categories: prevention and rehabilitation. Over the years, there has been a shift to greater emphasis on prevention, as the Board attempts to increase the amount of self-regulation in credit unions.

One of the most vital aspects of the task of preventing credit unions from falling into difficulties is the monitoring of their performances. The

Board has developed a comprehensive monitoring program known as its "early warning system." One of the outputs of this system is a "watch list" that identifies credit unions requiring special attention.

The essence of all preventive programming is to ensure that credit unions are run according to sound business practices. One important aspect is a Mutual Aid Board program which updates and maintains policy, operations and loans manuals. Assistance to credit unions in developing policies on loans and other matters is also aimed at improving management procedures. Mutual Aid Board collaboration with the government in revising and amending credit union legislation is intended to make the legislation more relevant to the current needs and operations of credit unions.

Most of the loan losses in the credit union system have been experienced in the area of commercial lending. As a result, the Central Credit Committee was set up to review loans made for business purposes, as well as certain other loans. Lending limits are established by the Mutual Aid Board for each credit union, and loans for amounts above those limits must be referred to the Central Credit Committee.

Another aspect of the Board's loss prevention program is its bonding and insurance coverage. Since the early 1970s, the Board has operated a master bond program which provides standardized coverage for the entire credit union system throughout the province. It has also been involved in programs to improve security and reduce losses, for example, through the upgrading of safekeeping and burglar alarm equipment.

When credit unions do find themselves in difficulties, the Mutual Aid Board can take action in a variety of ways, depending on the nature of the problems. If a credit union has particularly serious problems, the Mutual Aid Board has the power to place it under supervision, while providing it with financial assistance. The primary reasons why supervision is imposed are: a failure by a credit union to develop adequate reserves, a failure to develop adequate plans and policies, or a failure to operate in a sound and business-like manner. A credit union has the right under the Credit Union Act to appeal a declaration of supervision to the government registrar of credit unions.

In some cases, it becomes clear that it will be impossible to "nurse" a credit union back to health. To protect members' shares and deposits when a credit union becomes non-viable, the Mutual Aid Board becomes involved in the dissolution of the credit union or its amalgamation with another credit union. In cases of dissolution, the Board may be appointed liquidator on those rare occasions when it appears likely that the credit union will be unable to meet the claims of members for withdrawal of shares or deposits.

The preventive and rehabilitative programs of the Mutual Aid Board, which continue to evolve and be refined to meet changing needs, have been

remarkably successful in keeping the Saskatchewan credit union system healthy. Along with other measures provided by the system, they ensure that Saskatchewan's credit unions are extremely safe places in which to deposit money.

Footnotes

[1] The guarantee of shares is something unique to credit unions. However, the nature of credit union shares must be explained. A share account typically consists of a $5.00 ownership share and a separate amount which is essentially a savings account, except that the return is based on the performance of the credit union and life insurance coverage is provided on the account. So, the share account is not true equity that is at risk.

[2] Taken from the Statement of Credit Union Operating Principles adopted by the World Council of Credit Unions.

[3] Central's retail/commercial loans division is responsible for loans to retail co-operatives and credit unions, as well as farm, commercial and residential loans referred by credit unions. The wholesale/commercial loans division concentrates on mortgage investments or bridge financing loans primarily to property developers through brokerage agencies. Loans to central co-operatives are also serviced through this division.

[4] Mutual Aid Board, Integrated Monitoring System quarterly report, December 1982.

[5] *Credit Union Way*, August 1982, p. 27.

[6] Mutual Aid Board, *Annual Report*, 1982.

[7] Mutual Aid Board, *Annual Report*, 1982.

[8] It must be emphasized that assistance to the credit union system from the CDIC is only in cases of liquidity shortages, and does not cover absolute losses. There have, however, been some examples of government assistance in cases of absolute loss: for example, assistance to the caisse d'entraide system in Quebec and the credit union systems in Yukon and the Northwest Territories.

[9] In fact, the Saskatchewan government did take steps to protect depositors at Sherwood Credit Union in Regina when that credit union experienced financial difficulties in the 1950s. See Chapter 3, page 46.

[10] The statements of purpose, objectives and strategic priorities were revised by the Board in September, 1983. These are the revised objectives.

[11] Management report to Mutual Aid Board, October 31, 1982.

[12] The deposit insurance fund of the CDIC amounted to 0.2 per cent of total deposits insured in 1982. In addition, the CDIC is able to borrow from the federal government's consolidated revenue fund. The insurance fund of the FDIC was 1.15 per cent of estimated insured deposits in 1980. The FDIC also has access to funds in the U.S. Treasury in an emergency. Other provincial credit union deposit protection funds in Canada are close to one per cent of all provincial shares and deposits (See Appendix I).

CHAPTER TWO

Origins of the Mutual Aid Board

The Mutual Aid Board of Saskatchewan was the first body of its kind in the North American credit union movement. Its founders had few precedents from which they could borrow, but they were able to draw on the strong co-operative tradition that had developed in Saskatchewan. The credit union movement in Saskatchewan got its inspiration from credit union developments in other parts of the world, while its impetus came from leaders of the growing co-operative movement within the province.

The first "people's banks"

The first credit union in the world was a co-operative credit society or "people's bank" organized in Prussia in 1850 by Hermann Schultze-Delitzsch, who was interested in providing credit to craftsmen and artisans unable to obtain services from the commercial banks. In 1864 Friedrich Wilhelm Raiffeisen organized the first rural self-help credit society for farmers in Germany. While both types of people's banks were based on the democratic principles of the Rochdale co-operatives in England, the Raiffeisen banks, with their self-help emphasis, became more popular and grew more rapidly. They continue to be an important factor in the European financial community to this day.

The first credit union in North America was a caisse populaire (people's bank) established in the province of Quebec. It was founded by a journalist and legislative reporter, Alphonse Desjardins, in his hometown of Levis. Like the leaders of the European movements, Desjardins was a man of strong moral purpose who was deeply concerned that lower income people

were refused credit by banks and had to borrow at usurious interest rates from unscrupulous money lenders. One innovation he introduced was a common bond of association, permitting everyone within a church parish to become a member of the co-operative bank.

Desjardins was also instrumental in introducing the credit union concept into the United States. Among a group of interested people who listened to him speak about credit unions at a meeting in Massachusetts in 1908 was Edward Filene, a Boston merchant and philanthropist. In the following years, Filene and Roy Bergengren provided leadership in spreading the credit union concept throughout the U.S. The Americans introduced the occupational and associational bond credit unions, along with the residential bond patterned after the Desjardins model.

Bergengren also played a part in introducing the credit union idea to English-speaking Canada. He worked together with a group of Catholic educators, led by Dr. Moses Coady, at St. Francis Xavier University in Antigonish to set up credit unions for farmers, fishermen and industrial workers in Nova Scotia in the depressed conditions of the late 1920s and early 1930s. It was the "Antigonish model" credit union that came to flourish later in Saskatchewan and the other Prairie provinces.

The co-operative movement in Saskatchewan

The history of the co-operative movement in Saskatchewan dates back to the establishment of the first farming homesteads on the western plains in the late 19th century. Settlement in the western territories was encouraged by the federal government, which wanted to consolidate control over the area as part of its National Policy. It was also in the interests of the transcontinental railways, which needed more traffic, and eastern business interests, which needed cheap raw materials and protected markets for their manufactured goods.

But for Prairie farmers, the situation was different. Living in near isolation and scattered over a large area, they were far from the markets for their grain, and they had virtually no control over those markets. They came to resent deeply the fact that they were totally at the mercy of the railways, the grain exchange, and the grain elevator and milling companies, in setting prices and transporting and storing their grain.[1]

The farmers made a significant breakthrough when they formed the Territorial Grain Growers Association at Indian Head, Saskatchewan, and won important court victories against the Canadian Pacific Railway in 1902 and 1903, forcing the railway to stop favoring the elevator companies in the apportionment of rail cars.

The farmers were still faced with strong opposition, but spurred by that initial victory, they went on, led by men like E. A. Partridge and W. R. Motherwell, to form the Saskatchewan Co-operative Elevator Company and the Saskatchewan Co-operative Wheat Producers (which later acquired

the elevator company and became the Saskatchewan Wheat Pool). As the benefits of local ownership and control became more apparent, farmers established new co-operatives for the storage and marketing of wheat, livestock, eggs, poultry and dairy products by the end of the 1920s.

They pressed for the formation of the Canadian Wheat Board to reduce the market domination of the international trading concerns. To lower their production costs, they organized a co-operative society for the wholesale purchasing and retail distribution of farm supplies. That organization grew into the present-day Federated Co-operatives Limited. To combat the monopolistic practices of the oil companies, they built the world's first co-operative oil refinery in Regina.

Clearly, the growth of the co-operative movement in Saskatchewan was not just the result of dreamy idealists espousing lofty principles. It was built with a great deal of effort in hundreds of small communities by tough pioneer farmers struggling to survive in the face of an often harsh and extremely variable climate, and an economy over which they had no more control than the weather.

The province of Saskatchewan was created in 1905, just as the co-operative movement was beginning to grow. Since there were few vested business interests in the province at the time, and since there were almost no local institutions other than the co-operatives capable of initiating economic expansion, it was natural that the provincial government should become an active promoter and supporter of the co-operative movement. Many of the politicians and civil servants had participated in the organization and running of co-operatives before they entered government.

The double force of the greatest depression of the twentieth century and seven consecutive years of drought dealt a devastating blow to Saskatchewan farmers during the 1930s. They were, perhaps, hit harder than any other group in North America. Tens of thousands of farmers, especially in the "dust bowl" of southern Saskatchewan, lost virtually everything they had and many farm families were forced to abandon their land and go on relief. In the towns, hundreds of businesses failed, throwing many people out of work. Numerous co-operatives failed to survive, as well.

Banks closed scores of rural branches in Saskatchewan, as borrowers were unable to keep up loan payments and collateral literally blew away in the dust storms. It became virtually impossible for many people to obtain credit, just when they needed it desperately in order to make a new start in life.

Credit unions in Saskatchewan

B. N. (Barney) Arnason, a young marketing economist in the Co-operation and Markets Branch of the Saskatchewan Department of Agriculture, realized that, with the whole province facing the massive task of rebuilding its agriculture and its economic life, something special would

he needed to help people get on their feet again. Once again, people would have to rely on themselves and their neighbors, so it was time for the co-operative movement to enter a new phase.

He began to gather information about the caisse populaire movement in Quebec and the credit union movement in Nova Scotia. In 1934, he helped to organize a conference of Saskatchewan co-operative associations and invited George Keen, the secretary of the Co-operative Union of Canada, to come to the conference and introduce the idea of credit unions.

After the conference, a committee was set up with Harry Fowler of the co-operative refinery as chairman. It pressed the government to enact credit union legislation and, in 1937, the Credit Union Act came into force. Arnason, who was actively involved in drafting the legislation, borrowed heavily from the Nova Scotia Act. In 1937, he became registrar of credit unions and he provided quiet, steadying guidance for the movement until he retired 30 years later. In 1944, the government created the Department of Co-operation and Co-operative Development, with a Credit Union Branch, and Arnason became the Department's deputy minister, a position he also held until 1967.

In its formative years, the Saskatchewan credit union movement received a good deal of advice and assistance from leaders such as Bergengren and Coady, who were experienced in setting up credit unions, and from Walter Francis.[2] The first credit union chartered in Saskatchewan in 1937 was the Regina Hebrew Savings and Credit Union. It was followed by other urban credit unions set up by government and co-operative employees.

The first rural credit union was organized at Lafleche under the leadership of T. H. Bourassa, a local merchant. It formed a successful model that was copied in hundreds of other rural communities around the province. The rural credit unions had an enormous impact on Saskatchewan's economy as, for the first time, people were able to put their own savings to work for their mutual benefit and, at the same time, retain control of these revolving development funds within their own communities.

Soon after the first credit unions were formed, their leaders gathered in Regina to set up an association that could promote the development of credit unions, provide some services for its members, and represent them in dealings with the government. The Credit Union Federation, later renamed the Credit Union League, was established in 1938, and Thomas Molloy, a retired civil servant, became its president, a position he held for the next 14 years. He was a major influence on the development of the movement for the first two decades of its history.

As credit unions began to grow, there was an increasing need for them to have some place to deposit surplus funds when members did not need to borrow. The banks were reopening branches in Saskatchewan, but there

B.N. (Barney) Arnason, deputy minister of co-operation and co-operative development from 1944 to 1967 and registrar of credit unions from 1937 to 1967. He was one of the founders of the credit union movement in Saskatchewan. (Credit: Saskatchewan Government Photo Service)

was a lingering suspicion that they might once again withdraw some of their services if economic conditions worsened. So, in typical fashion, Saskatchewan co-operative leaders decided to pioneer a new form of institution that would meet their needs and at the same time retain control locally.

As a result, in 1941, they established the Saskatchewan Co-operative Credit Society to serve as a central depository for surplus funds from credit unions. It earned interest on those deposits by lending them to local credit unions and co-operative associations when they were needed. Molloy, Fowler, and George Munro, another one of the leaders of the movement, were instrumental in getting the Credit Society started. These three men served successively as president of the Society from 1941 to 1966.

Protecting members' shares and deposits

The credit union movement quickly took root and grew in Saskatchewan. By the time it was 10 years old, in 1947, it had grown from nothing to 188 credit unions, with over 31,000 members and assets of more than $5 million.

The movement was also remarkably successful in running its affairs. In fact, the Saskatchewan Federation received an award from CUNA in 1944 for organizing the most credit unions per thousand of population and having the lowest percentage of liquidations of any league on the continent. In 1947, *Credit Union Way,* the League's official publication, proudly proclaimed that no credit unions had failed and no members had lost any shares or deposits. More than $10 million had been loaned out by credit unions in the first decade and losses totalled only $600.

Unquestionably, the movement's leadership was concerned that credit unions should manage their money carefully to protect members. For example, the Credit Union Act required that at least 20 per cent of credit union net earnings be set aside each year in a reserve fund against bad loans or losses. The reserve fund was to be built up to 10 per cent of assets. In addition, a cash reserve of at least five per cent of paid-up capital was to be maintained to meet possible withdrawals of shares. Leaders such as Thomas Molloy, foreseeing the likelihood of increased loan demand in the post-war period and the possibility of more hard times in the future, strongly emphasized the need to build reserves during the comparatively stable period of the early 1940s.

Another safeguard built into the Act was the creation of the credit union supervisory committee. It was expected to keep fully informed on the financial condition of the credit union, examining all loan applications, examining the securities held as collateral for loans, auditing the books, verifying pass books and accounts, and reporting to the directors and the registrar. Molloy described the supervisory committee as "the guardian of the equity which each individual member has in the credit union."[5]

An additional protection provided by the Act was a requirement that all officers and employees handling money be covered by fidelity bonds. During the early years, the Federation negotiated group coverage for credit unions with Saskatchewan Guarantee and Fidelity Company but, as credit union assets grew, there were concerns about the adequacy of the bonding program. There was a feeling that treasurers should be bonded for up to 15 per cent of assets. The need to improve and standardize bond coverage led the League to introduce a province-wide master bonding program providing both fidelity and blanket bond coverage. Burglary and holdup insurance were also introduced, as a growing number of credit unions were keeping cash on hand and providing a form of chequing service. Insurance companies such as CUNA Mutual Insurance Society also introduced loan protection, in which it guaranteed the credit union against loss due to death (and later, permanent disability) of the borrower.

To back up and enforce the provisions of the Act, the government set up a team of credit union inspectors in its Department of Co-operation. Credit unions were required to file monthly, quarterly and annual reports with the department and the inspectors made regular visits to credit unions. Since many credit union treasurers and directors had no prior experience of running a financial business, the inspectors provided invaluable assistance,

often instructing credit union officials in the basics. The first inspector, A. C. "Mac" MacLean, was involved in the organization of more than 220 credit unions and served as supervisor of the Credit Union Branch from 1944 until 1956. Another one of the first inspectors who became something of a living legend for his work among credit unions was C. A. "Al" Snell. He was director of the Credit Union Branch from 1956 to 1973.

However, with all the protective measures and support, there is some evidence to show that good luck played more than a little part in the excellent record of Saskatchewan credit unions during the 1940s. Many credit unions ignored the advice about building reserves. Between 1938 and 1949, statutory reserves ranged between 0.9 and 2.9 per cent of total credit union assets. Government officials did not make an issue of it because of the low number of write-offs for uncollectible loans.

A veteran credit union manager, recalling the 1940s, felt that one reason why there were few problems with loans was that most of them were for very small amounts of money. In fact, many credit unions were lax in collecting on overdue loans, especially the small ones. A study of 31 credit

Thomas Molloy (right) with Bob Svoboda, former League vice president, at a Credit Union League of Saskatchewan annual meeting in the 1950s. Molloy was president of the League from 1938 to 1952, managing director of the League from 1949 to 1951, and president of the Saskatchewan Co-operative Credit Society from 1941 to 1947. He was one of the foremost leaders of the Saskatchewan credit union movement during its first two decades.

unions in 1948 showed a serious delinquency problem. It was found that 35 per cent of all loans, amounting to 20 per cent of all money loaned out, were overdue. Thirty-nine per cent of all loans for less than $25 were overdue.

Crisis strikes

While laxity and sloppy management by some credit union officials was causing concern to leaders in the movement during the 1940s, the need for greater protection of members' shares and deposits came to a head in 1950 and 1951.

One system-wide problem was caused by those old nemeses of Saskatchewan farmers — the weather and the railways. In 1950, a calamitous frost hit most of Saskatchewan, lowering the grade and price of much of the grain. In addition, there was a very late and incomplete harvest and, to make matters even worse, an embargo was placed on grain deliveries because of a shortage of rail cars. Then, in 1951, there was a bumper crop, but the grain was tough and damp at harvesting time, and anywhere from 25 to 30 per cent of the crop was left in the fields. Meanwhile, shipping difficulties continued and much of the 1950 grain remained undelivered.

One of the immediate results of these problems was a heavy draw on deposits at the Credit Society. Between 1949 and 1951, deposits plummeted from $3.2 million down to $1.2 million.[4] These events highlighted once again the fact that the economy of Saskatchewan was centred almost completely on agriculture, especially wheat and coarse grains. Two bad crop years in a row could set off a chain reaction that rippled through the entire economy.

For credit unions, one lesson learned was that, in an economy heavily dependent on one industry — an industry that produced wildly fluctuating levels of income — it was necessary at all times to maintain a high level of liquidity. Beyond that, there was the danger that several consecutive crop failures could cause many farmers to default on their loans, and that would place a heavy strain on reserves, which were already at inadequate levels. Since crop failures could occur simultaneously across the province, there was a need for a system-wide effort to build reserves.

While the problems of maintaining adequate liquidity and reserves in an agricultural economy caused concern in the credit union movement in Saskatchewan, the idea of forming some sort of central reserve fund was, at most, still only a vague notion in the minds of a few people. Two specific events were needed to touch off serious discussion about setting up a central fund. Both of these events, which occurred within a few months of each other, involved yet another potential threat to the security of members' shares and deposits — defalcation, or the misappropriation of credit union funds.

The first case occurred in St. Gregor, a small community just east of Humboldt. The manager of the credit union there also operated a lumber

An annual meeting of the Co-operative Union of Canada, held in Winnipeg in 1946. Several prominent members of the Saskatchewan credit union movement were present yard and worked for a grain company. In 1950, the credit union's supervisory committee was told by a bond man from the grain company that grain company money had been used for credit union purposes.

The credit union called in the government inspectors to do an audit. It turned out that the manager had not taken any money for his own personal use, but that he was in the habit of transferring money from one of his three business operations to another to cover shortages. It took the inspectors four months of going through the books to sort out everything that had happened. They discovered that about $36,000, which was 55 percent of the total savings of the 350 members, was missing.

About $8,000 was recovered through a bond claim, bringing the total loss down to some $28,000. Meanwhile, charges were laid against the manager and, after a lengthy trial in 1951, he was convicted and served a period in prison. Despite that, the general feeling of local people was that, while the man may have done a poor job of managing money, he really had the best interests of the community at heart and had not meant to do anything wrong. A special general meeting of the credit union was held in March, 1951, and members were advised of what had happened. A month later, at the annual meeting, members clearly showed that they were committed to carrying on with the credit union in spite of the loss.[5]

Shortly after the problems surfaced at St. Gregor, the second case of misappropriation of funds became known at Arran, a small town near the Manitoba border. There, an audit showed that the balances recorded in members' pass books were not the same as those in the credit union books. After three months of examination, the inspectors reported the bad news: more than $71,000 was missing. It was a clear case of misappropriation by the manager and it was never discovered what the funds had been used for. As at St. Gregor, there was a trial and the manager was convicted and served a term in prison.

The loss amounted to about 45 per cent of total savings of the 518 members. In some cases, members had all their life savings in the credit union. One widow and her three sons had put $30,000, the proceeds of a farm sale, into the credit union for temporary safekeeping. A bond claim and the seizure and sale of the manager's personal effects reduced the loss to about $58,000, but that was still a substantial amount for a credit union of that size. The members were told about the loss at a couple of general meetings in 1951. Some of them were upset, but no one was openly hostile. There was a feeling that not much could be done about it. As at St. Gregor, the members decided that the only way to recover the losses was to carry on with the credit union.[6]

A central fund proposed

The response from the credit union system was swift. After news of the loss at St. Gregor became known, several credit unions sent cheques to the

Credit Union League with the intention of helping to cover the loss. At a League directors' meeting in January, 1951, Henry Lawrence[7] of Lashburn suggested an amendment to the Credit Union Act permitting the League to assess and collect a portion of credit unions' annual reserve allocations, and to set up a fund for the redemption of the shares of a credit union facing dissolution with financial loss to its shareholders.

The debate about a fund continued throughout much of 1951. After a meeting with Premier T. C. Douglas, who was also Minister of Co-operation, and the deputy minister, Barney Arnason, the League directors decided that no action should be taken until after the court case involving the St. Gregor manager was completed. But at the League's annual meeting in July, a motion by Lawrence, that the League should investigate the possibility of setting up a stabilization fund, was approved by the delegates.

Another resolution passed after lengthy debate proposed that, of the 20 per cent of net income each credit union was required to allocate to reserves

Henry Lawrence (right) was presented with a plaque by Ray Neville in 1958 in honor of his lengthy service to the Saskatchewan credit union movement. Lawrence strongly supported the concept of a mutual aid fund, and was chairman of the Mutual Aid Board from 1955 to 1960. Neville was president of the Credit Union League from 1958 to 1964, and was a member of the Mutual Aid Board from 1960 to 1963.

annually, five per cent should be deposited in a central fund and the remaining 15 per cent retained by the credit union. Yet another resolution that was approved called for the League to set up a voluntary fund for contributions to assist St. Gregor Credit Union.

The idea of a fund seemed to be gaining acceptance, but it was not clear what the fund should do. The League's legislative committee felt the fund should not be used to reimburse credit unions for defalcations; such losses should be covered by adequate bonding. But when this committee met with Premier Douglas and Arnason in September, 1951, the premier indicated that he thought such losses should come within the scope of the fund. He argued that the situations in St. Gregor and Arran could have serious consequences for the whole co-operative movement. By November, 1951, the League executive committee was already at the stage of setting down the purposes of the proposed fund, and deciding who should sit on its board and how much the annual assessments should be.

Certainly, the possible dissolution of the two credit unions and the substantial loss of savings by their members worried many people in the movement. Many of them recalled the collapse of Home Bank in the 1920s and the difficulties of the Bank of British North America in the early 1930s, and the effects they had on Saskatchewan depositors. They were also aware of the many bank failures that had taken place in the United States. The credit union system in Saskatchewan was still small, even though it had grown substantially during the 1940s. There was a feeling among leaders that many people were still not sure about whether it was safe to keep deposits in a credit union. If nothing were done about the losses at St. Gregor and Arran, the future of the whole movement in Saskatchewan might be placed in jeopardy. So, by the end of 1951, it was generally accepted that a central stabilization fund should be set up as soon as possible.

Footnotes

[1] For a full analysis of the factors leading to the development of the co-operative movement in Saskatchewan, see Norman Bromberger, *Conflict and Co-operation* (Regina, Saskatchewan Co-operative Credit Society, 1973).

[2] Francis, a Saskatoon lawyer, served as legal counsel for the Credit Union League and the Credit Society, as well as for numerous other co-operative organizations until his death in 1964. An acknowledged expert in co-operative law, he represented co-operative organizations during the hearings of the Royal Commission on Co-operatives in 1944-45, and played a leading part in drafting the federal Cooperative Credit Associations Act, and in incorporating the Canadian Co-operative Credit Society under this legislation.

[3] From an editorial by Molloy in *Credit Union Way*, March, 1947.

[4] Saskatchewan Co-operative Credit Society, *Annual Report*, 1951.

[5] Accounts of the losses and the recovery at St. Gregor Credit Union appeared in *Credit Union Way* in October, 1959 and February, 1964.

[6] The story of the losses and recovery at Arran Credit Union was told in *Credit Union Way* September 1959 See also Muriel Clements, *By Their Bootstraps A History of the Credit Union Movement in Saskatchewan* (Toronto Clarke Irwin 1965), p.196-201.

[7] It is not clear who could be credited with originating the idea of a mutual aid fund But Lawrence was certainly one of the strongest promoters of the idea He joined the Mutual Aid Board in 1954 and became chairman the following year He continued in that capacity until 1960

CHAPTER THREE

The First Challenge

> The Mutual Aid Fund is the most important legislation since 1937. This legislation aims to meet some of the problems that are more peculiar to this province that to any other .... The purpose of the fund is essentially to assist credit unions to avoid getting into serious difficulty and to safeguard the savings of our credit union members. If dissolution of a credit union is necessary and some loss is threatened as far as money is concerned, some assistance to those who are threatened would be available.

These words were used by Barney Arnason, the deputy minister in the Department of Co-operation and Co-operative Development, when he addressed delegates to the Credit Union League of Saskatchewan annual meeting in Saskatoon in July, 1952.

With the government and many credit union leaders in the province convinced of the vital importance of having a central stabilization fund, they moved quickly in 1952 to set in motion the machinery for establishing such a fund. One of the first steps of the League was to notify other co-operative organizations in the province of the plan and seek their support. In the early part of 1952, the plan was discussed with representatives of the Saskatchewan Wheat Pool, Federated Co-operatives Limited, and Co-operative Life Insurance Company.

What sort of fund?

Arnason and his associates in the government, along with League officials, faced several problems in drafting legislation to set up the fund. One question was whether there should be a separate act drafted to provide for the creation of what was to become a totally new entity. Recalling the question years later, Arnason said it was decided that the legislation should take the form of an amendment to the Credit Union Act to show that the new fund was really an extension of existing credit union activities; a further development of the concept of sharing of resources and accepting responsibility for losses for the benefit of the whole.

Perhaps the most important question was: how should the new fund and board be structured and how should they operate? There were virtually no precedents known by the drafters of the legislation. Premier Douglas recalled, from his years as a federal Member of Parliament (1935-44), that there had been a central stabilization fund for chartered banks and that it had provided a guarantee for depositors when the BNA Bank got into difficulties in the 1930s.

In the credit union movement, there was no real experience anywhere in North America of how a stabilization fund could operate.[1] Some attempts had been made. For example, the California Credit Union League had adopted a plan for a stabilization fund in 1950, and CUNA circulated details of it to other leagues. The fund would be created through annual assessments of one-twelfth of one per cent of total assets of each participating credit union. Loans or other benefits could be paid to any credit union in difficulty, if it had been paying assessments for at least three years. On liquidation, the fund could make up the losses of members or assist any credit union in danger of insolvency. But participation in the plan was voluntary and trustees of the fund could refuse to admit a credit union, thus limiting the potential extent of the guarantee.

In Quebec, there was also a form of protection for credit union members' equity. The provincial Desjardins federation annually assessed local caisses populaires one-tenth of one per cent of total assets as dues. A further two per cent of gross earnings was added to these in the late 1940s. Ten per cent of the total dues collected annually was set aside by the federation as a security fund to assist local caisses populaires in temporary difficulties. The conditions of assistance were at the discretion of the federation.

With limited experience elsewhere to draw upon, Saskatchewan credit union leaders were forced, not for the first time, to rely on their own creative instincts and their own experiences to develop a fund that would meet their particular needs. After considerable deliberation, it was decided that the new fund should be administered by a board that was distinct from the Department, the League and the Credit Society, but which worked in close co-operation with those bodies. Since any credit union could find itself in

difficulties at some time, and since the failure of any credit union with a loss of members' shares and deposits could jeopardize the future development of the entire movement, there was general agreement that the fund should not be voluntary: assessments should be levied on all credit unions. At the same time, the fund would not "cost" anything for credit unions: the amendments would provide that a portion of each credit union's reserve would be invested in the central fund. In effect, it was to be an example of the pooling concept, already well understood in Saskatchewan, being put to a new use.

The amendments incorporating these ideas and setting up the Mutual Aid Fund were approved by the provincial legislature in April and the legislation came into effect on July 1, 1952. At the League's annual meeting a few days later, Arnason explained the purposes of the legislation to delegates and suggested some possible policies for the operation of the new fund.

Getting a consensus

By this time, the idea of a mutual aid fund was accepted by most credit unions in the province and a motion supporting the establishment of the Fund was passed at the 1952 annual meeting of the League. No doubt, one reason that not all credit unions contributed to the voluntary "St. Gregor fund" in 1951 was that they were convinced the Mutual Aid Fund would become a reality within a year, and it could then deal with the St. Gregor problem, as well as those of other credit unions that ran into difficulties.

However, there were still some credit union leaders who felt that when a credit union had difficulties, especially when they were caused by defalcations, the rest of the credit union system was under no obligation to bail it out financially. Perhaps, they argued, increased bond coverage would be more appropriate.

To ensure, therefore, that the new Fund had the widespread support of the credit union movement, even beyond that provided by the League's directors and delegates, it was agreed by the Department and the League that all credit unions would be polled regarding their support for the Fund. To allow them ample time to study the Act amendments before finally deciding on the merits of the Fund, the poll would not be held until the fall of 1952. Unless at least one-half of all credit unions with a total membership of at least two-thirds of the total provincial membership voted in favor of the plan, it would not be instituted.

A circular explaining the plan, together with a questionnaire, was mailed to each credit union and the results of the poll were conclusive. A total of 79 per cent of all credit unions, with 80 per cent of the total provincial membership, voted in favor of adoption of the plan.[2] So, by early 1953, the way was clear to appoint a board and get the Mutual Aid Fund into operation.

The Mutual Aid Board becomes operational

The Board, as administrator of the Fund, was established by government order-in-council on May 8, 1953, and five members were appointed. The structure of the Board was agreed upon after considerable discussion. One early draft charter prepared by the League would have set up a California-style fund with five trustees elected by delegates at the annual League meeting. A later plan proposed a three-member board with one representative each from the Department of Co-operation, the League, and the Credit Society. The final approved structure called for five Board members: three elected by the League (usually two League board members and one other), one elected by the Credit Society, and one appointed by the registrar.

The first meeting of the Mutual Aid Board was held May 22, 1953. Attending the meeting were (left to right): J.R. Dunnet of the Attorney General's Department, Mike Eriksen, secretary treasurer of the Board and managing director of the Credit Union League, Gordon Nielsen, first chairman of the Board, and a representative of the League, Barney Johnson, secretary manager of the Saskatchewan Co-operative Credit Society, A. Grant Howard, representing the League on the Board, A.C. (Mac) MacLean, vice-chairman of the Board and supervisor of credit union services in the Department of Co-operation and Co-operative Development, Barney Arnason, deputy minister of co-operation and co-operative development, and Ernest Celpron, representing the League on the Board. (Credit: Saskatchewan Archives Board)

An organizational meeting of the Board was held on May 22, 1953, at the office of the registrar, Barney Arnason, in the legislative building. Arnason articulated the feeling of all those present: that they were pioneering in the development of a new and vitally important function of the credit union movement on the continent.

Attending that meeting along with Arnason were the first five members of the Board: Gordon Nielsen of Tisdale, A. Grant Howard of Saskatoon, and Ernest Colpron of Gravelbourg, all representing the League; Barney Johnson, the newly appointed secretary-manager of the Credit Society; and Mac MacLean, representing the registrar of credit unions. Also attending were Mike Eriksen, who had recently replaced Tom Molloy as managing director of the League, and J. R. Dunnet, from the Department of the Attorney General.

An election of officers was held and Nielsen became the first-ever chairman of the Mutual Aid Board. MacLean was elected vice-chairman and it became something of a tradition for the next two decades that the head of the Credit Union Branch was always elected vice-chairman. MacLean and Al Snell, who both held that position, had a wealth of knowledge about the operations and problems of credit unions throughout the province, and they made an enormous contribution to the effective functioning of the Board during its first 20 years. The chairman of the Board was always a representative of the League, until the League ceased to exist in 1970.

Eriksen was elected secretary-treasurer of the Board, and that marked the beginning of an arrangement whereby the League managing director and, later, a representative of Credit Union Central, always served as secretary-treasurer. Because of Eriksen's position, it was only logical that the League should provide the limited amount of administrative work necessary for the functioning of the Board and the management of the Fund. The League decided to charge the Board a fee of $25 a month for the secretarial and clerical services it provided. That first simple agreement eventually grew into a management contract under which Credit Union Central provides a wide range of services and the administration fees run to more than $1 million a year.

Assessments of credit unions, as proposed by delegates at the 1951 League annual meeting, were set at five per cent of net income annually, while the total required allocation to credit union reserves, including the Mutual Aid Fund assessment, was not increased above the existing level of 20 per cent of net income.

St. Gregor and Arran

The first major task facing the Mutual Aid Board once it had become operational was to devise some sort of recovery program for the credit unions at St. Gregor and Arran. After the initial shock of the financial losses

had worn off, the majority of members at both credit unions had made a commitment to carry on with the credit unions Under those circumstances, it was essential to provide them with some support

At both credit unions, all assets were frozen immediately after the losses had been discovered in 1951 It soon became clear to members that, if they chose to dissolve the credit unions, they would lose all their shares and deposits, because it would be impossible to collect any outstanding loans Most decided to take a chance and try to get something back At St Gregor, men like Bill Rossmann encouraged members to rebuild the shattered credit union Rossmann a member of the supervisory committee, told members at the 1951 annual meeting that they could fire him, but he had no intention of resigning

No elected officials were ousted from office In fact one director, Con Plemel, the local Wheat Pool agent, was hired as manager and he commenced to run the credit union out of his office in the Pool elevator At Arran, Mike Kinaschuk was appointed manager, and he ran the credit union from his home, along with his insurance business

Loan collections proved to be difficult, because some borrowers believed that they had no obligation to repay loans to credit unions that had pretty well ceased to function Government officials helped Plemel and Kinaschuk convince these borrowers otherwise Money began to flow in,

Con Plemel was appointed manager of St Gregor Credit Union after it got into serious financial difficulty in 1950 and 1951 Concerns about the situation there led to the establishment of the Mutual Aid Board in 1953

and it was possible to pay off members' deposits in time. But members kept most of their money in life insured share accounts, and the share capital remained frozen for several years.

Meanwhile, at St. Gregor one old bachelor came into Con Plemel's office and said he wanted to open an account and deposit $10. Plemel, who was spending long hours trying to collect outstanding loans, was taken aback that anyone would want to deposit money in the credit union at that time, but the man said "If I put it in, I know it'll stay there."

After numerous consultations about the legal status of new deposits, Al Snell of the Department came up with an acceptable solution: start a second credit union. The old credit union would collect outstanding loans and rebuild the depleted reserves, while the new credit union would offer new share and deposit accounts and loan services. So, in 1952, charters were granted for St. Peter's Credit Union in St. Gregor and Livingstone Credit Union in Arran. In each community, the managers commenced to operate simultaneously with two separate sets of credit union books.

Financial assistance

In 1954, when the Mutual Aid Board stepped in with financial assistance, the credit unions were struggling, without much success, to recover their losses. At the League annual meeting in March, Mutual Aid Board chairman Gordon Nielsen reported a proposal to provide grants-in-aid for 75 per cent of the loss of the members. The balance of the losses would be recovered by the credit unions themselves, or through Board loans.

The delegates, however, defeated that proposal. Another motion proposing combined interest-free loans and grants-in-aid was also defeated. A third motion, proposing that any grants-in-aid be postponed for five years, and that interest-free loans be provided immediately, was carried.

The argument for loans rather than grants was based on the notion that the credit unions would then realize that they had a responsibility to work to achieve their own recoveries. The loans would be interest-free so the credit unions could use the interest they earned on those funds to build up their reserves more quickly than would otherwise be possible.

In May, the Board approved a motion by Barney Johnson to provide interest-free loans of $14,000 to St. Gregor Credit Union and $29,000 to Arran Credit Union, approximately half of the losses suffered by the two credit unions. One good reason for not making larger loans was that the Fund contained very little money at that time. The 1953 assessment of the Board, based on 1952 credit union earnings, was about $23,000. The 1954 assessment added another $33,000 to the Fund.

Nevertheless, the Board did commit itself to make additional interest-free loans available up to 100 per cent of the losses, as the Fund grew. Repayment of the Board loans was to be on the basis of all interest collected

on all existing loans and all future loans made by the old credit unions while the arrangement was in effect. The lending activities of the two new credit unions were not affected.

In addition to the loans, the Board agreed to provide the two old credit unions with grants to cover the salaries of their managers and legitimate operating expenses. This meant that, even though most of the earnings were being used to repay the Board loans, there would still be surpluses available to increase the value of members' shares. The credit unions, in turn, agreed to certain restrictions on loaning, withdrawals, and general operations.

During the next five years, officials at both St. Gregor and Arran worked hard to rebuild share capital and repay the Mutual Aid Board loans. MacLean and Snell often visited the two communities, and provided step-by-step guidance in the complicated affairs of managing two credit unions at the same time.

In 1959, five years after the first loans had been made, the situations at St. Gregor and Arran were reviewed thoroughly. St. Gregor, with the aid of interest-free loans of about $40,000 and operating grants of just under $6,000, had been able to recover more than 50 per cent of its losses and repay about $12,000 on the Mutual Aid Board loan. At Arran the Mutual Aid Board had provided loans of about $61 000 and operating grants of over $17,000. The credit union had been able to rehabilitate about 35 per cent of its loss and repay some $16,000 to the Board, leaving about $45,000 outstanding.

Grants-in-aid

The Board decided that both credit unions had made praiseworthy efforts to recover from their losses and that it was time to provide new assistance. With the approval of delegates at the 1959 League annual meeting, the Board decided to make grants-in-aid, bringing the share capital in both credit unions up to par value. At St. Gregor the grant amounted to just over $15,000, bringing the outstanding loan down to $12,769. At Arran, the grant was about $50,000, and the outstanding loan was reduced to about $29,000.

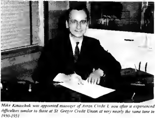
So, in August, 1959, Al Snell announced the good news about the grants-in-aid at general meetings in both St. Gregor and Arran. The atmosphere was far different from what it had been at those tense meetings eight years earlier. "There is no need for handkerchiefs tonight," said John Stratychuk of the Wheat Pool at the Arran meeting.

In both communities members voted to amalgamate the two credit unions, and in both cases, they retained the names of the original credit unions. The Mutual Aid Board requested each credit union to repay the outstanding loan in five yearly installments, plus interest at 2½ per cent per year on the outstanding balances. Both loans were repaid on schedule in 1964.

Since many members of both credit unions had a large proportion of their life savings in the frozen share accounts there was enormous relief when the ordeal was over Those who had chosen to withdraw their money earlier at 50 cents on the dollar were startled in 1959 when they received cheques for the balance of their savings. So, the credit unions could rightfully claim that no one had lost a cent of shares or deposits.

One of the most touching stories was related by Mike Kinaschuk at Arran. An elderly couple had $4,000 in savings at the credit union when its assets were frozen The wife was seriously ill in hospital and the husband, fearing that she was dying, went to Kinaschuk and demanded his money immediately. Kinaschuk patiently explained that there simply wasn't any money, but the distraught man wouldn't listen. "If my wife dies, I'm going to lay her body on your doorstep!" he threatened His wife recovered shortly after and he came back to apologize to Kinaschuk Then, in 1959, when the couple received a cheque for $4,000, they decided the money would be safest if it were left in the credit union

Credit Union Way ended a report on St Gregor in 1959 with these words "So a story book ending to a credit union that could have faltered but which, through determination and sacrifice on the part of the members coupled with assistance from the credit union movement through the Mutual Aid Fund, will continue to flourish and serve the community of St Gregor."



Mike Kinaschuk was appointed manager of Arran Credit Union after it experienced difficulties similar to those at St Gregor Credit Union at very nearly the same time in 1950-1951

Both credit unions did flourish. New credit union offices were completed in both communities in 1966. St. Gregor's assets had grown to nearly $6 million by the early 1980s, while Arran, growing more slowly, had passed the $2 million mark. Moreover, new credit unions sprang up in the surrounding areas of both towns and grew more rapidly. Many people, it seems, were waiting to see how the credit union movement would resolve the problems at St. Gregor and Arran before they were willing to put their savings into credit unions.

New policies for new problems

Other than at St. Gregor and Arran, the Mutual Aid Board was required to give very little financial assistance during the 1950s. Several years of crop failures in the Arborfield area led to cash flow problems for the local credit union. Two loans totalling $4,100 were made by the Board in 1954 and 1955 at one per cent interest. Although these loans were eventually repaid, the problems continued for some time.

The movement did have a big scare in the mid-1950s, when it was learned that Sherwood Credit Union in Regina, one of the largest credit unions in Canada, was in difficulty. It had about a half million dollars in bad loans, including one large loan with a trucking firm. The Mutual Aid Board was approached, but it was not in a position to provide assistance. Eventually, verbal guarantees were provided by the provincial government, but they were never required. The Department of Co-operation gave Sherwood approval to write off its bad loans over time, and it was able to do that without reducing dividends, although patronage refunds were suspended. Major losses at Sherwood at that time would have been disastrous for the whole movement in Saskatchewan.

Its early experiences led the Mutual Aid Board to conclude that its assistance policies must be flexible. The Board argued, in its 1958 annual report, that it must have a free hand to grant the form of assistance it felt to be necessary. This would not lead to the Fund being treated as a "glorified Santa Claus", it was added.

Consideration by the Board of an application for assistance from a credit union in financial difficulties would be tied in with a program of self-help on the part of the credit union. The Board's objective would be to maintain the solvency of credit unions, and prevent liquidation wherever possible.

Such assistance would be provided mainly in the form of interest-free loans, possibly staged over several years to cover a portion of the loss at one time. But interest could be charged and the rate could be set at the discretion of the Board. It could equal the return on investments with the Credit Society (2½ per cent), or it could be reduced (as at Arborfield).

If the assistance program appeared to be taking too long, the Board policy was to introduce a combination of loans and grants, but still with the

intention of promoting self-help Grants-in-aid alone would be used only where they were needed to encourage a credit union to greater self-help efforts or where shareholders and depositors had to be partially reimbursed in case of liquidation

After nearly a decade of operation, the Board appeared to be functioning successfully The crises at St Gregor and Arran had been resolved to everyone's satisfaction and the potential crisis at Sherwood had been averted The credit union movement in Saskatchewan had reason to believe that it would be able to cope with any financial difficulties that might crop up

Footnotes

[1] *Credit Union Way*, February, 1952

[2] *Credit Union Way*, April, 1952 and January-February, 1953, Mutual Aid Board *Annual Report*, 1957

CHAPTER FOUR

Refining the Fund Concept

As the credit union system entered the 1960s, the Mutual Aid Board could claim that it had successfully cleared the first hurdle in its existence by resolving the financial problems at St. Gregor and Arran. It had developed workable policies to deal with the issues that arose during the 1950s and it had earned the confidence and support of credit union leaders throughout Saskatchewan. Credit unions, in turn, benefitted from an enhanced public reputation as reliable and safe financial institutions, and their growth accelerated during the 1960s.

The Board was able to shift its focus to new issues and adapt and modify its policies to handle new types of problems that arose. Fortunately, there were no major problems that severely tested the resources of the Fund.

The Porter Commission

By the late 1950s and early 1960s, the concept of a stabilization fund for credit unions was gaining acceptance throughout North America. Saskatchewan's Mutual Aid Board, as a pioneer in the field, with nearly a decade of operational experience, provided a model for the development of funds elsewhere.

The Board, along with the rest of the credit union system, received national exposure and extensive public scrutiny for the first time in 1962 when submissions were made to the Royal Commission on Banking and Finance, headed by Chief Justice Dana Porter of Ontario. The Commission, in its examination of the credit union systems in Canada, discovered some

Representatives of the Saskatchewan credit union system and financial co-operatives made submissions to the Porter Royal Commission on Banking in 1962. Among them were (left to right): Harold Wagner, general manager of Co-operative Trust Company; Les Tendler, treasurer of Saskatchewan Co-operative Credit Society; Al Charbonneau, managing director of the Credit Union League; Ray Neville, president of the League; Barney Johnson, secretary manager of the Credit Society; and George Munro, president of the Credit Society.

"latent weaknesses", which it identified in its 1964 report: inadequate supervisory and inspection arrangements in some parts of the country, a need to strengthen the protection provided to shareholders and depositors through mutual aid funds, and problems posed by low liquidity in some credit unions and their centrals.

Dealing specifically with mutual aid funds, the Commission made the following recommendation:

> We agree with the views of the national organizations that all locals should be required to belong to a mutual aid fund in order to provide an additional safeguard for their members. As we pointed out earlier, credit unions and caisses populaires differ from other banking institutions accepting funds from the public in that they are restricted to operating locally and cannot diversify their lending risks as easily as other organizations operating over a broader area. They are thus especially vulnerable to severe local difficulties, and the assurance of help from the movements' own mutual aid funds is vital to them and to their members.[1]

Other stabilization funds

At that time, British Columbia was the only province outside of Saskatchewan with a stabilization fund. The Credit Union Reserve Board was established there in 1959, primarily through the efforts of the B.C. Central Credit Union and the B.C. Credit Union League. Participation in the fund was mandatory for all credit unions but, unlike in Saskatchewan, the Reserve Board has always been totally independent of the Central and the League. In 1968, the Provincial Credit Union Share and Deposit Guarantee Fund was created to provide an unlimited guarantee of all members' shares and deposits. The Reserve Board became the regulatory arm of the credit union system and the administrator of the Guarantee Fund.[2]

Ontario had no stabilization fund but, in the late 1950s, the Credit Union League requested a legislative amendment that would permit it to examine any affiliated credit union where the League believed there was cause for concern.

In the United States, many state leagues introduced some form of stabilization fund during the 1950s and several were patterned at least partially on the Saskatchewan model. Al Snell was frequently invited to stabilization conferences in the U.S. to provide advice and to discuss the Saskatchewan experience.

Most of the state programs were operated by the leagues themselves and were financed mainly from portions of league dues that were set aside in separate funds. Participation in most of these programs was voluntary, creating problems when credit unions required assistance but did not participate in a program.

One of the best programs was in Michigan, where the League had set aside $354,000 for its stabilization fund between 1955 and 1959, and assisted some 70 credit unions. In Illinois, the Credit Union Share Insurance Corporation was formed in 1956, with no participation from the League. It too was a voluntary plan and, by 1959, only 620 of the nearly 1,600 credit unions in the state were members.[3]

Snell, after returning from one stabilization conference in New York in 1959, made the rather immodest, but perhaps accurate comment that "we in Saskatchewan have by far the best stabilization program in effect anywhere on this continent and I believe we are the envy of all the others."

Most of the state league programs were modest in scope, they provided no deposit guarantees and they were limited to state-chartered credit unions. A bill was introduced in the U.S. Congress in 1952 to provide for an insurance fund to cover losses in federally chartered credit unions. The fund, to be administered by the director of federal credit unions in the Social Security Administration, would be mandatory for all federal credit unions and would cover losses in shares or deposits up to $2,500 per member. That legislation died and the credit union movement remained

strongly opposed to government controls. As an alternative, the CUNA Stabilization Corporation was set up in 1958 with the objective of bringing all state leagues into its membership and acting as a re-insurer.

Discussions concerning an international stabilization fund were begun and continued throughout the 1960s. The Mutual Aid Board was invited to become a member of CUNA International Stabilization, Inc. in 1965, but declined. Snell returned from one meeting in Washington in 1966 and expressed frustration at the lack of common understanding: most U.S. credit union people, he said, refused to accept the principle of compulsory participation or government participation in stabilization funds.

Meanwhile, the voluntary, league-operated stabilization programs met with little success. Most of their funds never rose above $300,000 and they were unable to cope with the financial crises that developed in later years. CUNA's national program never had more than 30 state members and its liquid assets never rose above $1 million.

The U.S. federal government stepped in with the establishment of a national share insurance fund under the National Credit Union Administration in 1970, and many of the state programs were liquidated after that. By 1982, there were 18 state share insurance corporations, only two had assets of over $20 million.[4] CUNA Stabilization Corporation was dissolved in 1982.

CUNA's international efforts came to be channelled into assisting programs in countries such as Jamaica, New Zealand and Paraguay. Those efforts are being continued by the World Council of Credit Unions.

Growth and transformation of the movement

The credit union movement in Saskatchewan underwent some remarkable changes during the 1960s. The formation of new credit unions was most rapid in the 1940s; it slowed down dramatically in the 1950s, and the number of credit unions began to decline after reaching a peak of 301 in 1965. (See Appendix II)

But growth in total membership and assets did not slow down. Membership grew from 48,000 in 1950 to 137,000 in 1960, and accelerated to 320,000 in 1970. From a marginal adjunct to the financial community, the credit union system had blossomed to include one-third of the entire population of the province by the end of the 1960s. Assets grew even more dramatically — from $12.5 million in 1950 to $88.8 million in 1960 and $407 million in 1970.[5]

The transformation of the system was evident in the growing size and services of many credit unions. In 1950, the average credit union in Saskatchewan had just under 200 members and assets of just over $50,000. By 1960, the average credit union had grown to just under 500 members and $320,000 in assets. In 1970, the average was 1,200 members and $1.5 million in assets.

Among the many new credit union buildings erected throughout Saskatchewan during the 1960s was this one at Arran, where the credit union fully recovered from its problems of a decade earlier.

By the early 1960s, most credit unions were no longer operated by volunteer treasurers working out of Pool elevator offices or cubby-holes tucked into the backs of stores. Many credit unions had erected attractive new buildings that differed little from bank branches in appearance. They were being managed by full-time employees, including many of those former volunteer treasurers who had gradually taken on more and more responsibilities. Many credit unions had introduced chequing services, new types of deposit accounts and a variety of other services. They were dealing with greatly increased numbers of members and processing volumes of transactions that were increasing astronomically. New, more sophisticated management skills were required to cope with the growing scale and complexity of credit union work.

Expanded services

Inevitably, not all credit unions were able to keep pace with the growing demands on them. The government had stepped up its program of supports and controls in the early 1950s, when it divided the province into six districts and appointed a resident inspector in each. Supervisory committees were having difficulties keeping on top of the situations in larger credit unions, so the Credit Union Act was amended to permit credit unions of a certain size to employ auditors.

The services of the credit unions' central organizations were expanded too. The Credit Society, which initially shared staff and office facilities with Sherwood Credit Union, greatly increased its central banking services for credit unions and co-operatives under the leadership of Barney Johnson, who was its secretary-manager from 1953 to 1963. Cheque clearing services were introduced at the Society's Regina and Saskatoon offices in the late 1950s. The Credit Society also had a close working relationship with the Mutual Aid Board. The Board maintained more than half of all its investments in Credit Society shares and fixed term deposits and, in the 1960s, it established a line of credit with the Credit Society. In addition, Barney Johnson served as a valued and respected member of the Board for 11 years.

The tremendous growth of credit unions during these years also led to expansion of the services of the Credit Union League. During its first 15 years of existence, the League was run almost singlehandedly by Tom Molloy, who at one time was both its president and managing director. The League began to expand its staff and services rapidly, especially between 1959 and 1965 when G. A. (Al) Charbonneau was its managing director.

The League introduced a field service in the 1950s, providing credit unions with advice and assistance in their organizational and development work, and making service calls to assist in operational matters. The number of field representatives was increased in the 1960s, as the League gradually assumed some of the duties performed by government inspectors in the earlier years.

With the increased need for more skilled credit union personnel, training programs were introduced by the League, some of them in conjunction with the newly formed Western Co-operative College (later renamed Co-operative College of Canada) in Saskatoon. The Mutual Aid Board supported the League's manager trainee and on-the-job employee training programs with grants of $5,000 per year in the early 1960s, and later $10,000 per year. It was, perhaps, one of the first forms of preventive programming in which the Board became involved. The League also introduced an employee emergency replacement program in 1962 and, although the Board felt it did not have the legal powers to provide financial assistance, it did approve of the program as a means of supporting credit union management.

The Development Fund

Another program introduced by the League was its Development Fund. By the early 1960s, most credit union members in the province wanted full-time service, as well as a negotiable order (chequing) system. But the League, according to one report by Charbonneau, estimated that there were some 55 "weak and retarded" credit unions functioning as part-time operations that could not provide service at that level.

Many of those credit unions, it was felt, had the potential to become full service operations if they received some assistance. The League would select and pay a full-time manager to run the credit union until its assets reached $300,000, at which point the credit union was considered to be capable of sustaining a full service operation on its own. Eventually, it would be expected to reimburse the League for the assistance, so the fund could be used to assist another credit union.

In 1963, a management agreement was signed with Kipling Credit Union and the first manager was hired under the program. A year later, after its legislation had been amended, the Mutual Aid Board provided a grant of $20,000 to the Development Fund, enabling the League to expand the program from three to six credit unions. Charbonneau, who in addition to his League responsibilities was also secretary-treasurer of the Mutual Aid Board, kept the Board well informed on the progress of the Development Fund. The Board increased its grants to $60,000 in aggregate in 1966 and $100,000 in 1973.

The program did stimulate development. By 1970, 12 credit unions had received assistance. Their combined membership grew from 4,000 to nearly 12,000; total loans outstanding jumped from $1.3 million to $7.3 million, and member investments rose from $2.4 million to $9 million. Some of the credit unions, such as Spiritwood, became remarkable success stories.[6]

At the same time, there were some problems. Not all credit unions in the program were successful. Fort Credit Union in Fort Qu'Appelle eventually was dissolved. The management contracts were changed to make the managers credit union employees, because credit union boards were not receiving enough guidance. Also, the League was unable to provide competent managers to all the credit unions requesting assistance. That demonstrated the growing need for improved management skills.

Bonding and Insurance

The League became more actively involved in bond coverage as the growth of credit union operations made adequate insurance more important. Fidelity bonds were required by all credit union employees handling money, and the coverage was increased from $15,000 to $25,000 in 1954, with a floater fidelity bond being carried by the League. Nevertheless, after several defalcations, it became clear that the coverage was inadequate and the bonding schedule based on the size of credit unions was revised upward several times during the 1950s and 1960s. In 1966, the Mutual Aid Board entered the bonding field when it agreed to pay the premiums for $50,000 of excess fidelity bond coverage for each credit union. Another new feature introduced by insurers was the optional faithful performance bond, available at 30 per cent of the fidelity bond premium.

The other main part of the bonding program was the blanket coverage. The League purchased a master bond and resold the bond to credit unions

New improved safekeeping equipment had become a high priority for credit unions during the early 1960s.

Blanket coverage included insurance against loss of money or securities through any act committed by any employee (much like fidelity coverage) as well as losses through robbery, burglary, larceny, theft, holdup, damage or destruction while the property was in the credit union premises or in transit, as well as damages to the premises caused by burglary or hold-up.

As credit unions began to handle more cash and negotiable securities, burglaries became an increasing problem. Tom Molloy used this graphic description of the situation in the September, 1956 issue of *Credit Union Way*: "At this time of the year when many millions of dollars in cash are being distributed to paying agents for the various grain companies throughout the province, burglars like pirates of old are flocking to the richest trade routes. In a recent period of approximately three weeks, three credit union offices were burglarized. At Coronach some $12,000.00 in cash and securities were taken. Dinsmore lost $1,500.00 and Mankota $4,900.00."

The growing number of burglaries and a consistently unsatisfactory claims-to-premium ratio led the League to introduce a loss prevention program in 1960. A special committee was set up to work out a premium schedule with the insurers to provide credit unions with incentives to

improve their safekeeping equipment, and it negotiated an arrangement with two companies for the provision of their safes to credit unions at discounted prices.

Many credit unions took advantage of the program by purchasing new safes and upgrading their vaults In 1964, the Mutual Aid Board stepped in and offered loans at two per cent interest for 10 years to small credit unions that could not afford to purchase new safekeeping equipment In 1969, the Board purchased six heavy-duty safes and rented them to small credit unions at low rates Both these programs continued until the late 1970s The results of the loss prevention program were dramatic the claims-to-premiums ratio for burglaries dropped from 180 per cent in 1963 to one per cent in 1966.[7]

Collection service

Another type of loss that was causing concern to credit unions resulted from bad or uncollectible loans. Saskatchewan credit unions had a good record Total loans between 1937 and 1963 amounted to $356 million, and the write-off to statutory reserve was only 14½ cents for each $100 loaned, which was the best record in the financial industry at the time

Nevertheless, there was concern that through negligence or lack of outside help, some credit unions would suffer heavy losses in uncollectible accounts There was a large exodus of people from Saskatchewan during the 1950s and 1960s, and a large proportion of the uncollectible loans were to debtors who had left the province There were also numerous farm and business loans that had been neglected for years and had deteriorated

As a result, Saskatchewan's credit union system pioneered yet another innovation, when the League established the first credit union collection service in Canada in 1961 At the time, there were few collection agencies outside the larger cities The new agency introduced information, collections letter, skip location, collection services, and an education program for credit unions While collections had always been something of a sore point for people imbued with the co-operative philosophy, the League's collection agency was hardly a heavy-handed arm-twisting operation The first manager, Ed Dressler and his staff worked in a conscientious and responsible manner, and the agency became self-supporting and highly successful The Mutual Aid Board normally used Al Snell as liquidator of dissolving credit unions, but in time it began to use the services of the collection agency, too In 1982, the central collection services were no longer needed and the agency was wound up as part of a reorganization of Central's loan services.

New Mutual Aid Board functions

In addition to the support it provided for new League services during the 1960s, the Board took on other new responsibilities as well Its powers were broadened by the revised Credit Union Act in 1962 and by subsequent amendments to the Act. Among the legislative changes were provisions permitting the Board to act as liquidator in the dissolution of credit unions and to purchase assets of credit unions in which it had a financial interest. The reasons for these changes can be found in developments in the credit union system. Many credit unions were growing rapidly, but others, including many of those identified as being potential recipients of Development Fund assistance, had languished for years. Often the commitment to persevere and grow in the face of difficulties, which was so evident at Arran and St. Gregor, was lacking. In other cases, the membership bases of small parish and employee credit unions declined and they had no choice but to dissolve. The result was that, although there were still new credit unions being formed, dissolving credit unions eventually outnumbered them and, after 1965, the total number of credit unions began to decline.

The Credit Union League of Saskatchewan greatly expanded its services to credit unions during the early 1960s. The League's senior management included (left to right) Henry Van Kampen, director of education; Al Charbonneau, managing director; Tony Thorson, director of field services; Ed Dressler, manager of the collection agency; and Eldon Anderson, director of public and member relations (back to camera).

The need to give the Board the capability to wind up the financial affairs of dissolving credit unions satisfactorily was obvious by the early 1960s. One list in 1964 showed 19 credit unions where all shares had been paid out, another seven where shares were still being paid out and four more that were having other financial matters wound up. Al Snell reported to the League annual meeting in 1962 that, to minimize expenses, representatives of the Department of Co-operation were being appointed as liquidators in almost all cases of dissolution. But the extra work placed a burden on Snell's staff, so he strongly supported the idea of the Mutual Aid Board assuming the duties of liquidator in cases where the Board had provided financial assistance to the credit union.

For a time, Snell and his staff continued to handle a heavy workload of liquidation cases, but eventually the League collection agency was able to become more involved. In 1966 the Mutual Aid Board adoped the policy of requesting the registrar's appointment as official liquidator for each credit union to be dissolved. The staff of the League collection agency were then appointed as service employees to administer the liquidations. Fees were negotiated on the basis of a reasonable analysis of the circumstances of each credit union.

The growing number of dissolutions did create some uneasiness within the system. There was a feeling that simply dissolving a credit union that was no longer able to function — paying out its members, and hoping that they would deposit their money in another credit union — was not enough. One attractive alternative to dissolution was amalgamation of credit unions. Some people feared that repeated amalgamations would lead to large regional credit unions that would abandon the strong local identity of smaller credit unions. But the arguments in favor of retaining members within the movement and continuing or even improving services to them through amalgamations, were compelling.

The problem, however, was to make amalgamations easier. The Mutual Aid Board had to come up with policies that would allow the absorbing credit union to pick up assets with a guarantee against losses. By the late 1960s, the Board was evolving an amalgamation policy. At first, it advanced funds to the absorbing credit union and the funds were repaid as the loans of the absorbed credit union were collected. Later, the Board began to guarantee the payment of losses in excess of statutory reserves at the time of amalgamation. After several years the Board would make a payout for the amount of the loans written off and turn the loans over to the collection agency.

By 1970, the number of dissolutions had dwindled and amalgamations had become more common. Before long, many of the amalgamated credit unions were carrying on as branches of the larger credit unions.

Structural changes

The debate over the merits of amalgamation was part of a larger debate that is probably as old as the co-operative movement — centralization versus decentralization. The debate heated up during the 1960s with the evolution towards fewer and larger credit unions. Noting the large numbers of amalgamations taking place, some people confidently predicted that, by 1980, there would only be some 50 or 60 regional credit unions in Saskatchewan, and they welcomed the prospect as a positive development.

Some went beyond that and advocated a total amalgamation of all credit unions and the central bodies into a single credit union organization for the entire province. Cec Lewis of Assiniboia, who was a member of the Mutual Aid Board during the 1960s, suggested a unitary system similar to the Saskatchewan Wheat Pool, where there was a central organization with regional representation.

At the same time, there was considerable hostility toward these ideas, particularly in small communities where people felt they would lose control of their credit unions. The credit union system in Saskatchewan had been built by people with strong suspicions of centralization, and those suspicions remained deeply rooted.

At the same time as this debate was going on, questions were being asked about the nature and functions of the second-tier organizations. In the late 1960s, discussions focussed on the need to rationalize the operations of these organizations, and proposals were made to amalgamate the League, the Credit Society and Co-operative Trust. Concerning the League and the Credit Society, there was a feeling that, even though they had excellent relations with each other, their functions could begin to overlap and they might begin costly competition in the future. In the case of the Credit Society and Co-op Trust, they were already competing for investment funds from credit unions and relations were becoming strained.

Co-operative Trust acquired a national charter in 1967 and dropped out of the discussions; in fact, the company may never have been seriously interested in amalgamation. The other two organizations supported amalgamation in principle and they began holding joint board meetings with a single executive committee in 1968. Amalgamation was approved at the annual meetings of both organizations in 1969, and it was finalized at the first joint annual meeting in 1970. The new organization retained the name Saskatchewan Co-operative Credit Society and adopted the trade name Credit Union Central of Saskatchewan in 1976.[8]

Whither the Fund?

During the 1960s the purposes and values of most credit union institutions were being questioned. The Mutual Aid Fund was no exception. The Fund had been growing steadily during the 1950s, even after nearly

$90 000 in grants to Arran and St. Gregor were deducted. The interest-free loans had resulted in annual deficits for the Fund from 1954 to 1959, but by 1964 the accumulated deficit had been wiped out and surpluses began to build up.

At the end of 1961, the Fund, as represented by accumulated assessments, had passed the half million dollar mark, already quite a substantial sum in the eyes of many credit union people. Moreover, the total assessment that year had been $117 000, and it appeared likely that the Fund was going to grow very rapidly during the 1960s, reaching the level of one per cent of total system assets before long.

The latent suspicion of centralized institutions began to surface again. There were concerns that the Fund had the potential to become so large and powerful that it would become the master, rather than the servant of the movement. To some extent, the discussions centred on finding new uses for the growing Fund. The Act was amended to permit a number of new uses already mentioned: grants from Fund earnings to the League's Development Fund and its management training programs, loans to credit unions for the purchase of safes and vaults, and the purchase of assets from dissolving or amalgamating credit unions.

Other potential new uses were suggested. Some suggestions were implemented by the Mutual Aid Board, others were not. In 1966, one credit union asked the Board for a loan to construct a new building for itself. The Act was later amended to permit the Board to make available funds for new credit union offices under certain circumstances.

Another credit union had its furniture and equipment destroyed in a fire started during a burglary attempt. It was discovered that the loss was not covered under the blanket bond insurance plan, so the credit union asked the Mutual Aid Board for assistance. Although the Board was unable to provide any aid, it did notify the insurance carrier of its dissatisfaction with the ruling.

One credit union involved in an amalgamation asked the Board for a guarantee of any operating loss suffered as a result of the amalgamation. The Board replied that it was only able to guarantee losses on loans in excess of reserves.

A revolving fund?

But, aside from discussion of potential uses for the Mutual Aid Fund, there was a serious debate about the Fund itself. This debate had begun when the Fund was first established and centred on whether the Fund was essentially a part of credit union reserves or whether it was a separate entity. Since assessments were calculated as a portion of the required allocation to statutory reserves, credit unions treated those assessments as part of their reserves. They were carried on the books of credit unions as assets

There was also some pressure from credit unions to get these funds returned to them. A resolution approved at the League's 1953 annual meeting requested the Mutual Aid Board to consider operating the Fund on a revolving door plan. The Board rejected that idea, pointing out that, when the Fund reached one per cent of total credit union assets, there would be no further assessments. A year later, however, the Board dropped its opposition to the revolving fund idea.

Nevertheless, the legislation made no provision for the return of assessments to credit unions. One exception was that the Board could be dissolved with the support of two-thirds of all credit unions. The Fund would then be dispersed, with each credit union receiving the amount of its accumulated assessments less any assistance it had received from the Fund. Also, if a credit union were to dissolve, its assessment contributions would be refunded.

The issue was revived in 1960 when resolutions at the League's annual meeting suggested that the Mutual Aid Board commence the revolving door plan and also that a dividend or interest on money in the Fund be paid to credit unions. Both resolutions were defeated but, when the Credit Union Act was consolidated and rewritten in 1962, the principle of the revolving door plan was accepted. The Act provided that, once the Fund reached $1

C.A. (Al) Snell, director of the Credit Union Services Branch of the Department of Co-operation and Co-operative Development, and a member of the Mutual Aid Board from 1957 to 1973, addresses the annual convention of the Credit Union League in Saskatoon in 1964. Seated (left to right) are: Sylvia Wyatt of the Department of Co-operation; G.A. (Al) Charbonneau, managing director of the League and secretary-treasurer of the Mutual Aid Board from 1959 to 1965; Ray Neville, president of the League; and Harold Braaten, vice-president of the League.

million, one year's assessment would be returned to credit unions each year, beginning with an amount equal to the assessment levied in 1953. These refunds were to be placed in reserve accounts by credit unions.

The Board was also authorized to turn over assessments of dissolved credit unions to newly organized credit unions at the same point and composed of generally the same membership. The Board interpreted this to permit the transfer of assessments of an amalgamated credit union to the credit union with which it was being amalgamated.

The other issue raised at the League annual meeting in 1960 was settled in favor of the credit unions, too. An amendment to the Act in 1964 permitted the Board to pay credit unions interest of up to five per cent on their assessment contributions.

Thus, by the mid-1960s, credit unions appeared to have succeeded in clarifying the definition of what the Mutual Aid Fund actually was. It was a portion of their statutory reserves which they were investing in a central fund for their mutual benefit, and which was being returned to them on a revolving basis.

A need for more reserves

However, this arrangement was not acceptable to everyone. The issue was discussed at one League board meeting in 1966. Concerns were expressed about the advisability of revolving assessments in the light of the need for a large reserve. In reply, it was pointed out that the assessments were revolved to forestall agitation from credit unions and, in any case, only small amounts were involved. For example, the 1966 assessment was $400,000, while the refund of the 1954 assessment that year came to only about $37,000. However, it was suggested that, when the refunds reached the $150,000-$200,000 range, the matter should be looked at again.

In fact, the revolving fund was terminated in 1970, long before refunds reached that level. The Mutual Aid Board set up a committee in 1969 to review all its powers, policies and programs, and to suggest possible changes. The review committee was composed of two Board members, Al Snell and Harry Gemmel, the manager of Sherwood Credit Union, and the Board's secretary-treasurer, Baldur Johnson. Les Tendler, who was to become secretary-treasurer in 1970, when he became general manager of the amalgamated League-Credit Society, also participated. One recommendation of this committee was that the revolving assessments be terminated and that an interest rate of two per cent be paid to credit unions on accumulated assessments. This recommendation was adopted in 1970.

Another recommendation was related to the method of assessment. A sub committee of the League's Management Advisory Committee had recommended that the Credit Union Act be amended so that assessments would be a maximum of one quarter of one per cent of outstanding loans at year-end. However, in the Mutual Aid Board review committee, Al Snell

argued that since changes were being made to the method of calculation of the allocation to statutory reserves — they were to be based on a formula for the determination of loan loss exposure — the assessment should be calculated on a different basis. Since the Fund was designed to provide insurance or protection for credit union shares and deposits, he suggested that assessment should be a maximum of one-fifth of one per cent of shares and deposits. That would continue the Fund's assessment income at the same level as it was at that time.

His recommendation was adopted into the legislation and the new method of assessment was used for the first time in 1970. To cut down on administration, the Board decided to simply debit the accounts of credit unions in the Credit Society for the amount of their assessments. That raised a few hackles. One large credit union questioned the authority of the Board to take that step. One small credit union refused to have the assessment deducted from its account and continued to pay by cheque. The perception of what the Fund was, and what powers the Board had, appeared to be shifting to a more centralized perspective.

The deposit insurance issue

While discussions of the nature and functions of the Mutual Aid Fund were going on, a new issue arose calling into question the adequacy of the Fund in times of major crises. After the financial collapse of two Canadian companies, Atlantic Acceptance and Prudential Finance, in 1966, there was

Baldur Johnson, secretary-treasurer of the Mutual Aid Board from 1965 to 1970 and managing director of the Credit Union League from 1965 to 1968.

a public outcry; many people lost the money they had deposited with those institutions.

The federal government hastily drafted and passed legislation in 1967 setting up the Canada Deposit Insurance Corporation. This new Crown corporation was to insure deposits for up to $20,000 in all federally chartered banks, trust and loan companies. In addition, provincially chartered trust and loan companies could contract with CDIC for similar deposit insurance. In the same year, the Quebec government established the Quebec Deposit Insurance Board to provide the same insurance in that province. The two bodies worked out an arrangement whereby the QDIB would insure all deposits within Quebec and CDIC would insure all deposits in qualifying institutions in the rest of Canada.

While the Canadian legislation seemed to be almost a spur-of-the-moment response to an emotional issue, the deposit insurance issue was not new. The Federal Deposit Insurance Corporation had been created in the United States in 1933 to come to grips with the massive numbers of bank failures there. Bank closures averaged 2,277 per year in 1930-1933, reaching a peak of 4,000 in 1933. Not only were many people losing their savings, but the closures were reducing the money supply. The FDIC was intended to protect the money supply as much as anything else.

Bank failures dropped sharply after the FDIC became operational. They averaged 43 per year between 1934 and 1942, and dropped to four per year between 1943 and 1980. Deposits were initially insured for $2,500. The limits were increased several times, reaching $15 000 in 1966, $20 000 in 1969, and $100,000 in 1980.[3]

A separate deposit insurance fund was set up for U.S. savings and loan associations in the 1930s as well. A fund for credit unions, providing the same level of deposit insurance coverage, was set up in 1970.

The issue had been discussed periodically in Canada, but it was generally felt that chartered banks, with their massive branch systems and spread of investment and loan risks, were not so vulnerable to failure. Only one Canadian bank had actually collapsed, resulting in a loss of deposits. It was primarily the potential failure of other trust and loan companies that triggered the 1967 legislation.

Should credit unions be included?

The credit union system became concerned about whether credit unions should be protected by deposit insurance, too. In a study of the issue in 1967, Norm Bromberger, then head of the Credit Union Research Council in Saskatchewan, wrote that the Mutual Aid Board acted in the capacity of a deposit insurance corporation. It maintained liquidity by becoming a lender of last resort, and it acted as a dissolution agent for failed credit unions.

However, he pointed out, the Fund had only limited resources to carry out this function. If, for example, many farmers drew heavily on credit unions at the same time, it could create problems. He added:

> This sort of problem for one or two credit unions within the province could be solved by pooling credit union resources to meet just this sort of emergency. However, if it were to become particularly widespread, even though the loan and investment assets held by credit unions were completely sound, the excess cash withdrawals could place them in very serious financial difficulty. The right to draw on funds from outside the credit unions in times of distress would certainly reduce if not remove the danger of such problems.[10]

The Mutual Aid Board also concluded that some form of additional protection might be needed. The Credit Union Act did not specify any particular deposit guarantee other than "assisting in payment of any losses suffered by members of credit unions in liquidation". In certain extreme circumstances, such assistance might turn out to be limited.

In 1966, the Board asked Co-operative Insurance Services (CIS) to look into the possibility of setting up a deposit insurance agency. In 1967, it asked the League to request an amendment to the Credit Union Act, enabling the Board to act as an agent for CDIC when credit unions were permitted to participate in the program. At the same time, the research council was asked to carry out its study.

British Columbia's credit union system set up a share and deposit guarantee fund in 1968, with an unlimited guarantee, but it felt it needed backup credit or insurance. Insurance companies were not interested in providing coverage, since they could not obtain sufficient re-insurance facilities to underwrite such a large risk.

Saskatchewan officials contacted their counterparts in British Columbia to discuss the issue. The consensus seemed to be that CDIC should provide the backup insurance. The Porter Commission had recommended in 1964 that credit union mutual aid funds should be permitted to join any general system of deposit insurance that might be adopted in Canada.

Bromberger, in his report, envisaged the Mutual Aid Board handling dissolutions only as an agent of the CDIC and becoming more of a bad loan reserve. While there was a disadvantage in relinquishing control to an outside agency, this might be weighed against the psychological value of CDIC support. He pointed out: "The backing of the federal government implied in deposit insurance could certainly increase the confidence of members and/or non-members in credit unions. Confidence is a key factor in the operation of any financial intermediary."[11]

Even though the Quebec deposit insurance plan included caisses populaires and credit unions there, the credit union system in the rest of Canada had little success in dealing with the federal government on this

G Gingras (centre) president of the Canada Deposit Insurance Corporation, chats with Harold Braaten (left) president of Saskatchewan Co-operative Credit Society and Norm Bromberger general manager of the Credit Society during a visit to Regina in 1975

issue Federal Finance Minister Mitchell Sharp said credit unions were excluded from possible membership in CDIC for several reasons they were not public deposit institutions since they accepted deposits only from members within the bond of association, they were wholly under provincial jurisdiction, they already had deposit insurance through their mutual aid funds, and they were too small to affect the financial system

None of these reasons were acceptable to credit union system leaders. As Bromberger noted, credit union shares were more like savings than risk equity, provincial trust and loan companies were given access to CDIC, credit unions were being expected to protect themselves while other financial institutions were backed by the government, and trust and loan companies were small, too

Lender of last resort

In 1968, an amendment to the Credit Union Act was passed permitting the Mutual Aid Board to act as agent for CDIC, but little headway was made in discussions with the federal government Eventually, emphasis shifted away from full deposit insurance for credit union members to a lender-of-last-resort facility for the Mutual Aid Board. Progress was made on this issue and, in 1973, the federal Cooperative Credit Associations Act was amended to permit provincial centrals and stabilization funds to have a lender of last resort through CDIC. Richard Humphreys, the federal superintendent of insurance and a long-time friend of the credit union movement, was instrumental in getting the measure approved.

In 1974, the Credit Society and the Mutual Aid Board became the first provincial credit union institutions to receive approval from CDIC for the lender-of-last-resort facility. The Reserve Board in British Columbia and the Stabilization Corporation in Alberta later received approved status.

Under the agreement, CDIC would provide a short-term loan — not exceeding six months — in the event of a liquidity shortage, if it were satisfied that no funds were available elsewhere. The loan would be at an interest rate higher than the market rate and a number of very onerous conditions were attached. It was not an attractive source of funds, and would certainly be used only as a last resort, something G. Gingras, the president of CDIC, emphasized when he paid a visit to the Credit Society in 1975.

In 1977, provincial legislation was amended to provide explicitly an unlimited guarantee on all credit union shares and deposits and, in a related move, the powers of the Mutual Aid Board were increased substantially. Interest in federal deposit insurance continued to wane.

In 1982, there was a brief revival of interest in the issue, but unofficial contacts with federal officials showed that the federal position on deposit insurance for credit unions had not changed much in 15 years. The Mutual Aid Board was reaffirmed in its conviction that the advantages of federal deposit insurance were not worth the price. The Mutual Aid Fund not only offered a much more comprehensive deposit guarantee than the CDIC, but the Board also had very effective preventive and rehabilitative programs not available through CDIC. Moreover, through the Board, the credit union system was able to retain a degree of self-regulation that would not be possible with CDIC protection. Existing deposit protection measures were preferable in every way. The issue was not pursued further.

What the deposit insurance issue did in the early 1970s, though, was highlight the need for changes that would strengthen the capability of the Mutual Aid Fund to provide a full deposit guarantee.

Footnotes

[1] *Report of the Royal Commission on Banking and Finance.* (Ottawa: Queens Printer, 1964), p. 170.

[2] Credit Union Reserve Board, *Annual Report*, 1981.

[3] Report by C. A. Snell to the Mutual Aid Board, 1959.

[4] International Share and Deposit Guaranty Association, *1982 Yearbook State Share Insurance*

[5] Department of Co-operation and Co-operative Development, Province of Saskatchewan

[6] Saskatchewan Co-operative Credit Society *Annual Report* 1970; The story of the rejuvenation of Spiritwood Credit Union was told in *Credit Union Way* October, 1965 p 6-7

[7] *Credit Union Way* August 1966 p 2.

[8] See Christine Purden *Agents for Change Credit Unions in Saskatchewan* (Regina Saskatchewan Co-operative Credit Society Ltd , 1980), p 145-154

[9] *FDIC Symbol of Confidence* (Washington Federal Deposit Insurance Corporation, 1980)

[10] Norman Bromberger *Deposit Insurance for Saskatchewan Credit Unions A Study* (Regina Credit Union Research Council, April 1968), p 10

[11] Bromberger, *Deposit Insurance for Saskatchewan Credit Unions*, p 9

CHAPTER FIVE

Expanding the Role of the Mutual Aid Board

Although the development of the Mutual Aid Board was affected by changes taking place within the credit union system and by the attitudes of credit union leaders towards it during the 1960s, the concept of the Fund was still not entirely clear by the end of the decade. For a time, it appeared that the Fund would become little more than a central pool containing a portion of credit union reserve funds, with severe limitations placed on growth in its size and powers.

However, any fears on the part of credit unions that the Fund might grow into an uncontrollable monster were balanced by another fear. This was a concern that in a rapidly growing credit union system, there might be no adequate mechanisms to cope with future serious credit union financial problems or, even more importantly, to attempt to head off problems before they became serious threats. So, the Fund continued to grow after it reached the $1 million goal in 1964, and the Board continued to take on new functions at the same time that its purpose and role were being debated.

By the early 1970s, it was evident that the credit union system would have to rely primarily on its own resources to provide deposit insurance, something that was now expected of all financial institutions in order to maintain public confidence. At the same time, other issues arose which played an important part in expanding and substantially clarifying the role of the Board by the late 1970s. Like the deposit insurance issue, these issues involved the relationship between the credit union system and government.

The taxation issue

This issue, which brought the credit union system into conflict with the federal government, resulted in a large-scale restructuring of the Fund during the 1970s. The issue of whether credit unions should be taxed was not new. In 1944, a federal royal commission on co-operatives, which included Barney Arnason as one of its commissioners, studied the issue of taxation under the Income War Tax Act.

The royal commission report in 1945 supported the credit union system's position that credit unions were essentially different in purpose, ownership, and operation from privately owned corporations, and that their net earnings were not profits but savings generated on behalf of members. The federal government agreed to maintain the existing tax exemption and extended it to include credit union centrals as well.[1]

The issue came up again in the 1960s during the hearings of the Carter Royal Commission on Taxation. The credit union system once again made submissions urging continuation of its tax exempt status. But, by the 1960s, the credit union system had grown much larger and more visible to the general public. Private financial interests were growing alarmed by the rapid growth of credit unions as a new form of competition, and they were complaining that tax exemptions were unjustified, because they gave credit unions an unfair competitive advantage. A group called the "Equitable Income Tax Foundation" mounted a public campaign to pressure the government to remove all tax exemptions for credit unions.

The Carter Commission report in 1967 recommended a removal of tax exemptions and, despite objections from the credit union system, the recommendations were incorporated into a federal government white paper on tax reform in 1969, and into draft legislation tabled in 1971.[2]

The credit union system saw the new legislation as undermining the basic concept of co-operation. Leaders organized a national protest against the legislation. Lengthy negotiations resulted in amendments to preserve the integrity of credit unions as co-operative organizations, but in 1972, credit unions became taxable as Canadian corporations.[3]

Prior to the passage of the new Income Tax Act in 1972, there was considerable speculation about the Act's possible impact on the Mutual Aid Fund. The ensuing debate among credit union officials helped to bring the structure, role and functions of the Fund and Board into clearer focus.

For example, it was argued that Fund assessments might be taxed at the credit union, so assessments should be shown as expense items and deleted from credit union balance sheets. Also, the two per cent interest paid on investments in the Fund should be discontinued, and offset by a reduction in assessment. These recommendations were later adopted, thus making it clear that the Fund was not owned by credit unions.

After the Income Tax Act became law, it took almost six months for credit union officials to obtain a ruling on its application to stabilization

Joe Dierker legal counsel for the Mutual Aid Board and the Credit Society explains the implications of the Income Tax Act at a meeting in the early 1970s Seated behind him is John Barr of the Credit Society

funds. During that time, the Department of National Revenue chose to examine one fund, the Mutual Aid Fund, in depth The opinion received in early 1973 came as a shock: the Mutual Aid Board was a body corporate and should calculate income taxes as a Canadian private corporation Credit unions could deduct the Fund assessments as expenses for tax purposes, but the Fund would have to pay tax at an effective rate of about 50 per cent on both net earnings from investments and on assessments from credit unions Not only that, but the taxes could be retroactive to the inception of the Board With the potential for tax penalties and interest charges the Fund could be seriously depleted

The Board responded in two ways Together with the other three stabilization funds in Western Canada, it filed a tax return under a special section of the Income Tax Act as a non-profit organization exempt from tax. Also, acting on behalf of all other stabilization funds in Canada, the Board launched a strong appeal to federal Finance Minister John Turner It argued that the taxes would have dire implications for the Fund, for Saskatchewan credit unions and, ultimately, for the economy of the province At the same time, various alternatives were being considered to reduce the Fund s taxable income For example grants could be made to cover non-capital operating losses of credit unions carried forward, arising because of bad loans, in addition, assessment could be reduced

To have tax-free status, the Board felt that it must ensure that it remained a completely separate entity from the Credit Society But it was also felt that the Fund must be developed in close conjunction with the Credit Society to avoid what were perceived as "political problems" in the credit union systems of other provinces The result was a more formal arrangement of the relationship between the Board and the Credit Society In 1972, the Mutual Aid Board agreed to a proposal by the Credit Society that administrative fees paid to the Society should reflect the actual cost of providing those services to the Board. Between 1972 and 1973, the management fee paid by the Board went up from a nominal $3,500 to $200,000, which was far more representative of actual costs. In 1974, to maintain a clear record for tax purposes, the Board asked its legal counsel to draw up a management agreement between the Board and the Credit Society.

In 1974, a federal government order-in-council established that stabilization funds would remain tax free until January 1, 1975. After that date, assessments and any grants to credit unions paid out of assessments would be non-taxable. Earnings of stabilization funds, less expenses, would be segregated from assessments and subject to income tax at corporate rates.

The stabilization funds opposed the proposed agreement and they appointed a committee to meet federal officials in August, 1974. They restated their original position that stabilization funds should have tax-free status. After some negotiations, they modified their position, asking that expenses for preventive work — which included a wide range of services — should be deductible, and that investment income should be tax free to avoid double taxation.

When the taxation actually came into effect in 1975, the tax bite was modest. The Fund was divided into a tax-free assessment fund, and an income fund taxable at 25 per cent, not the corporate rate of 50 per cent. Most relevant operating expenses, including costs of preventive work, could be written off from the income segment.[4]

At about the same time as the new tax status was coming into effect, the Board met with representatives of the Department of Co-operation to discuss legislative changes that would spell out the powers of the Board more clearly. The changes were necessary both because of the tax position of the Board and because of its involvement with CDIC as lender of last resort. The legislative amendments, when they were passed in 1977, marked the culmination of the process of expanding and clarifying the role of the Fund.

Relations with the provincial government

The federal government generally tended to be seen as somewhat remote from the credit union system, even though some legislation, such as the Income Tax Act, had an important impact on the structure and operations of the credit union system. The provincial government was seen very differently. From the beginning, it had played a very active role in promoting and developing the credit union system in Saskatchewan. Barney Arnason, a lifelong civil servant, was one of the fathers of the credit union system in the province. Mac MacLean and Al Snell, two other long-time civil servants, played an enormous part in the development of the system during its first three decades. In the early years, the League, without any full-time staff, operated out of the offices of the Department of Co-operation.

Although this close and rather unique relationship between the government and the credit union system was beneficial to the system during its formative years there was a recognition that it could not continue in the same way. Tom Molloy, who later became the League's first full-time

By the early 1970s the credit union system was actively involved in dealings with the federal government. This delegation from the Credit Union Central of Saskatchewan board of directors attended a government affairs conference in Ottawa in 1976.

managing director, wrote in 1949: "In those provinces and states where too much dependence is placed upon governmental or other co-operative organizations the movement tends to degenerate and a large volume of self-reliance and ability to meet local conditions on the part of local credit unions is destroyed."[5] Arnason agreed with the need for the movement to develop the capability to manage its own affairs.

In fact, that did happen. During the late 1950s and early 1960s the system, through its centrals, had assumed responsibility for promotion, development, and education. Later, the centrals also took responsibility for policy guidance and operational advice. League managing director Baldur Johnson explained some of the reasons in 1969: the tremendous growth of credit unions had not been matched by increased resources in the government department, and there was a conscious determination on the part of credit unions to become more self-sufficient.[6]

This transfer of responsibilities was carried out amidst continuing close and friendly relations between the provincial government and the system until 1967, when Arnason retired. His replacement as deputy minister and registrar was Wilf Gardiner, a political appointee, and the relationship between the Department and the credit union system became strained, especially between 1967 and 1971.

One issue involving the Mutual Aid Board demonstrated the strains. In 1968, the Department announced that it would begin to charge inspection fees, and credit unions were outraged. Even though the Minister of Co-operation explained that the fees covered only 30 per cent of the cost of inspections, that provision for them was made in the original legislation, and that 40 other provinces and states assessed inspection fees, credit union leaders were dissatisfied. They argued that the quality of inspections was poor and that Department inspectors were intruding on the responsibilities of the centrals' field staff. In some credit unions, it was made clear that Department representatives were not welcome. There was talk of the credit union system establishing its own auditing service.

Eventually, it was agreed that the Mutual Aid Board would pay the 1968 fees, totalling nearly $50 000, and they would be shown in credit union books as grants from the Board offset by the payment of fees. Beginning in 1969, however, credit unions would be required to pay the fees themselves. The fees were dropped in 1972, following the election of a new government.

New powers

With a major revision of the Credit Union Act under way during the early 1970s, officials of both the Department of Co-operation and the credit union system agreed that special attention would have to be given to the section of the Act covering the Mutual Aid Board. Many credit unions experiencing financial difficulties were considering amalgamations and

they were requesting assistance from the Board. A thorough study was made of the British Columbia Credit Union Act and the powers of the Credit Union Reserve Board in that province, when changes were made in Saskatchewan legislation increasing the powers of the Mutual Aid Board.

The proposed changes were not welcomed by everyone, however. The draft legislation was explained to credit union officials at a series of district meetings in 1970. While the overall intent of the legislation was accepted in most districts, concerns were expressed that, for example, centralization would be forced on unwilling credit unions and that the powers of the Mutual Aid Board would be too broad. Assistance from the Board was certainly welcome, but there was reluctance to accept the notion that the Board would need some "teeth" to make its assistance effective, as well as to prevent credit unions from getting into difficulties.

By 1972, there appeared to be a general consensus within the system that it was necessary for the Board to be strengthened. The Board had become almost a totally new entity. The termination of the revolving fund plan and interest paid on credit union assessments, as well as the removal of assessments from credit union balance sheets, had in effect ended credit union "ownership" of the Fund. At the same time, the Board had acquired greatly expanded powers to intervene in the affairs of credit unions. It had become a more independent agency capable of playing a much more significant role in the credit union system. Yet it was still subject to the direction of the system by virtue of the fact that three of the five Board members would be from the system, and management would continue to be provided by the staff of the Credit Society.

The powers of the Board were expanded in six areas. There was a broad expansion of power reflected in the section permitting the Board to provide preventive services necessary to avert financial losses to credit union members. The preventive services were not defined specifically, it being assumed that they would be all-inclusive.

The Act also permitted the Board to establish a wide range of insurance programs, including fire insurance, bonding of employees, insurance against burglary and theft, deposit insurance, and public liability insurance; the Board could make any such program compulsory. In earlier years, the League had assumed responsibility for certain insurance programs.

Under a third new provision, the Board was allowed to establish a Central Credit Committee responsible for considering certain loans referred to it by credit unions. This was an attempt to establish some controls over lending practices, which were the causes of many credit union financial difficulties.

Perhaps the most important new section of the Act gave the Board the power to put credit unions under its supervision if they were conducting their affairs in a manner that threatened to impair the security of their members.

Les Tendler, secretary-treasurer of the Mutual Aid Board from 1970 to 1972, and general manager of the Saskatchewan Co-operative Credit Society from 1963 to 1972. In 1979, he became a member of the Mutual Aid Board.

A related, and somewhat controversial, provision empowered the Board to inspect and administer credit unions under supervision, if they did not correct any practices that were likely to contribute to the unsound conduct of their affairs. At the 1970 district meetings, there had been some reservations expressed about the Board being given the power to remove a credit union manager.

The sixth new provision was a further removal of limitations on the size of the Fund that had existed in earlier years. It permitted the Board to provide for an additional assessment from credit unions if the capital of the Fund was about to be impaired.

The revised Act represented an important shift toward increased self-regulation by the credit union system. For example, the registrar already had the power to appoint an administrator where such action was justified by the financial condition of a credit union. Under the new legislation, the Mutual Aid Board could request that the registrar appoint it as administrator. In other words the Board, rather than the government, would now determine when a credit union should come under administration. Another example of this shift was the power of the registrar to excuse compliance with requirements for allocation to statutory reserves. Where a credit union was subject to supervision by the Mutual Aid Board, the revised Act permitted the Board to exercise this power in place of the registrar.

Defining roles

By the late 1960s it had become clear to many people that something would have to be done to sort out the roles of the various bodies dealing with credit unions. The growing strains in the relationship between the government and the credit union system were accentuated by the fact that the credit union system wanted a greater degree of self-regulation. Meanwhile, not everyone in the provincial Liberal government was convinced that there should even be a Department of Co-operation. The general consensus in the credit union system seemed to be that the Department should continue, but that its role should be defined more clearly.

At the same time, there was a certain amount of confusion about the roles of credit union organizations. Some of the potential problems in establishing roles and responsibilities were resolved when the League and Society amalgamated. But there was still the Mutual Aid Board, which stood somewhere between the new central and the government; its responsibilities were not entirely clear either.

The debate on roles, which got its first full airing at district credit union meetings in 1967, led to the establishment in 1971 of a joint committee with representatives from the Credit Society, the Department of Co-operation and the Mutual Aid Board. Chaired by Credit Society vice-president Chris Hansen, the Role Committee, as it came to be called, was given the task of carrying out a thorough study of the jobs to be done, who should do them, and the costs involved.

The committee prepared detailed lists of all the existing responsibilities of the government, of auditors, of the Mutual Aid Board, and of the Credit Society. It also outlined how responsibilities should be divided up in future.

The work of the committee formed some guidelines for the revision of the Credit Union Act. The primary role of the Mutual Aid Board would be to provide financial assistance and supervision to credit unions and, if necessary, place credit unions under direct administration of the Board. In relation to the Board, the Department was responsible, in conjunction with the interested groups, for setting down minimum audit standards for credit unions, and for inspecting and, if necessary, referring credit unions to the Board for supervision. The Credit Society was responsible for assistance to the Board in the areas of administration and supervision of these credit unions, and for the development and implementation of preventive programs.[7]

In 1972, following the election of a New Democratic Party government, Premier Allan Blakeney told a Credit Society annual meeting that the Department of Co-operation had been de-emphasized by government in recent years, and that its role needed redefining. He later appointed a four-member committee, headed by Chris Hansen, to advise him on co-operative matters. The committee was given the full powers of a commission to conduct hearings. In 1973, the commission completed a report, generally referred to as the Hansen Report, which urged a strong government commitment to co-operative development, and recommended the establishment of a co-operative advisory council and the reorganization of the Department of Co-operation.

Later in 1973, Harry Gemmel, the newly appointed deputy minister of co-operation, told the Credit Society board that the Department would in future emphasize development, information, education and research. It would continue, but de-emphasize, credit union inspection and supervisory activities, thus creating a void that must be filled.

Norm Bromberger, who became general manager of the Credit Society and secretary-treasurer of the Mutual Aid Board in 1973, was also forming a view of how the relationship between the Board and the government should be developing. In February, 1974, he reported to the Mutual Aid Board:

> By offsetting losses on bad loans, our fund protects the deposits of the members (public) not only through direct pay out but through all kinds of remedial action. It seems to me that the government position in this case, as it seems to be developing in this province, is to insure that the public is protected. This does not necessarily mean active involvement in the operations of the fund. I am suggesting that the legislation should spell out the broad guidelines for action of our Mutual Aid Fund and the Mutual Aid Fund should then, within those guidelines, insure the stability of credit union deposits in Saskatchewan. This means that the role of the Mutual Aid Fund and Board is complementary to that of the provincial government.

At a meeting in 1974 between Bromberger and Bill Baumgartner, who had just been appointed deputy minister, a new liaison committee was

proposed to deal with all issues, including controversial ones involving the government and the credit union system. It was suggested by Bromberger that the committee include two Credit Society staff members, as well as credit union management, and elected officials of the Credit Society and the Mutual Aid Board.

Role task force

The liaison committee began to meet early in 1975 and it discussed changes to legislation affecting the Mutual Aid Board. In December, 1975, a four-member task force was set up to work on the definition of roles between the Department and the Board. The committee, which included Paul Dosch and Ed Cunningham of the Credit Society as Board representatives, was also asked to establish standard procedures for reporting and monitoring, and actions required relevant to credit unions operating in an unsound manner.

In 1976, the Minister of Co-operation, Ned Shillington, told the liaison committee that growth of the Department was being constrained by budget limitations. He suggested that the Mutual Aid Board take over some inspection activities, although final inspection authority would remain with the Department. Four more members, including John Barr of Central and Vic Keep of Assiniboia Credit Union, were added to the task force, and it was given responsibility for studying and reporting on the future role of the Mutual Aid Board, the Department, and commercial auditors regarding audits, examinations, and inspections.

The task force concluded its meetings and indicated that responsibility for examinations should be delegated to the Board. It prepared the following motion: "That, as the Mutual Aid Board provides an unlimited guarantee of share savings and deposits in credit unions, it is essential that preventive measures be initiated to minimize claims against the Fund. The monitoring, examining, regulating and the establishing of a comprehensive reporting system by and for the credit union system will provide basic public protection and aid in insuring sound credit union operations."[8] That statement neatly summarized the goals towards which the Board was moving. Within the next five years those goals were achieved.

Chris Hansen, who had become president of Central, took the recommendations of the task force to Premier Blakeney and discussed amendments to the Credit Union Act, and the implications to the credit union system of phasing in the examination and inspection functions. In December, 1976, the liaison committee set up a special committee to examine and recommend the roles of the Department, the Board, Central, external auditors, and the bond carrier. The Mutual Aid Board agreed in principle to the changes and appointed John Barr to develop a detailed program for it by March, 1977.

Chris Hansen, former president of Credit Union Central of Saskatchewan, and chairman of the Mutual Aid Board from 1975 to 1979

The amendments were passed by the legislative assembly in 1977, marking, as Bromberger put it in a letter to credit unions, a climax to 20 years of discussion about the respective roles of the government, Central, and the Mutual Aid Board. It would still take some time to implement the new roles fully, he added. But, contrary to a generally held belief, the roles had been changing gradually for several years. He pointed out that, with the 1977 legislative amendments, the roles were clearly stated for the first time.

Shaping policies and programs

While negotiations between the credit union system leaders and the federal and provincial governments were making it possible to develop a new, more effective Mutual Aid Board with expanded powers, the task of developing new policies and putting them into action remained to be done

The revised Credit Union Act in 1972 stated the overall purpose of the Board — protection and stabilization of credit unions in financial difficulties and provision of preventive services — but no guidance was given for the carrying out of its functions As Bromberger pointed out in 1973, the Board had no established aims, objectives or policies to assist it in forming a consistent base for dealing with credit unions under the powers given to it. If the Fund was in fact providing an unlimited guarantee of savings and deposits through the process of protecting itself from losses, it would have to take a much more active role

In December, 1973, the Mutual Aid Board held a special meeting to develop aims and objectives. John Barr and Dale Hillmer of the Credit Society staff, who were handling most of the Board's operational duties, were given the responsibility to draft policy guidelines The proposed objectives were that the Board should work with government and audit firms to carry out effective audits, and follow up on problem areas uncovered by audits, develop procedures for supervision and administration of credit unions, and develop more effective asset management procedures for assisting in credit union amalgamations so losses would be avoided

The FDIC model

The example of British Columbia's Credit Union Reserve Board was used extensively in the development of the 1972 legislative amendments affecting the Fund and in the subsequent creation of Board policies In addition, the Federal Deposit Insurance Corporation in the United States provided a model for the formation of policies and programs Board officials travelled to Washington D C on several occasions to study FDIC operations

Deposit insurance through the FDIC is required by law for all national banks most state banks and trust companies Included in the coverage are the shares of mutual savings banks, which are somewhat similar to credit unions

The FDIC has the power to inspect and examine all insured banks, although it concentrates on state-chartered banks not in the Federal Reserve System Each bank is examined at least every 18 months, and banks with financial problems are examined more often The examiners provide advice to the banks, and the FDIC can order a bank to desist from any unsafe or unsound practices All insured banks also submit quarterly

reports which are analyzed and form an essential part of the FDIC's monitoring system.

The FDIC provides several forms of assistance. It can make loans, purchase assets or deposit funds in an insured bank in danger of closing. If a bank does fail, the FDIC acts as receiver and may arrange for a merger with a healthy bank. It arranges a 'purchase and assumption' transaction in which the healthy bank takes over many of the assets and assumes the deposits of the failed bank. The FDIC assumes unwanted assets, such as bad loans and investments, and liquidates them. If a deposit payoff is required, it is made immediately, up to the insurance limit. Amounts in excess of the limit are treated like any other debt of the bank. The FDIC can also organize a "deposit insurance national bank" to supply limited services on a temporary basis to a community that has lost its only bank facility.

The FDIC's liquidation operations are an important aspect of the protection of the money supply. A large staff works at turning bad loans and investments, bank buildings and equipment, and security from defaulted loans into cash. Between 1934 and 1979, disbursements by the FDIC totalled $5.2 billion, while recoveries from the liquidation of failed bank assets totalled $4.9 billion.

The Insurance Fund was initiated with capital provided by the U.S. Treasury and the Federal Reserve Banks. This capital was retired by 1948 and, since then, the fund has been built through assessments on insured banks and interest income. In 1980, the fund totalled $10.8 billion, which was 1.15 per cent of estimated insured deposits. The FDIC can also borrow up to $3 billion from the U.S. Treasury in an emergency. The annual assessment rate is one-twelfth of one per cent of average total deposits, but the effective net assessment rate has normally been less than half of that amount.[9]

The Mutual Aid Board adopted some of the programs of the FDIC, but the Board's role, as defined in the 1972 legislation, was intended to be somewhat different from that of the FDIC. It was committed not only to protecting members' deposits, but also to supporting and ensuring the survival of the credit unions themselves, if at all possible.

Rehabilitative functions

In its attempts to nurse credit unions with financial difficulties back to health, the Mutual Aid Board had been empowered since 1953 to provide financial assistance. Through its experience with the credit unions at Arran and St. Gregor during the 1950s, the Board had developed the policy of providing interest-free or low interest loans to credit unions. Outright grants were only made in certain circumstances.

In the early 1970s, concern about the effects of taxation on the Fund led to questions being asked about whether the interest-free loan policy should be continued. Some Board members felt these loans should be replaced by

advances to write off bad loans. These would be set up in the Board's books as payables, depending on the government's interpretation of the Income Tax Act. It was also believed that taking large bad loans off the hands of credit union managers might relieve some of the pressure on them.

In 1974, the Board decided to discontinue interest-free advances, and it adopted a policy of guaranteeing operational losses (capitalized expenses) of credit unions arising from bad loans. However, a year later, after taxation of stabilization funds was introduced, it became clear that interest-free loans could be made, and a new policy was developed. The loans would be made to credit unions located in potentially viable communities, if the capital of members was impaired and if amalgamation or dissolution of the credit union were not possible. The credit union would be placed under supervision or management contract, all purchase and disposition of assets would have to be approved by the Board, and all rates charged or paid by the credit union would have to be approved by the Board. Repayment would be on a five-year term, beginning not more than two years after the date of the loan.[10]

The loans were used to help a number of credit unions recover from difficulties. In 1974, there were seven outstanding loans for about $1.1 million. In 1978, there were loans totalling about $600,000 to five credit unions. The policy has continued to be used effectively, allowing credit unions to earn the full amount of interest on the borrowed funds while they correct the problems facing them.

Supervision and administration

The powers of supervision and administration were introduced in 1972. According to the Credit Union Act, a credit union would be placed under supervision by the Mutual Aid Board if it was unable to pay a dividend unless indulgence was granted regarding its reserves covering loss exposure; if the amount in statutory reserves after deducting loss exposure was less than one per cent of outstanding loans; or if the registrar advised the Board that a credit union was operating unsoundly. The registrar could also prohibit supervision. The supervision would be ended when the circumstances that caused it ceased to exist or the credit union were liquidated.

The supervision powers of the Board included: exercising the registrar's powers to grant indulgence regarding reserve requirement, inspecting the affairs of credit unions, ordering audits of credit unions, ordering the correction of unsound practices, requesting the registrar to appoint the Board as administrator, or recommending to the registrar the amalgamation or liquidation of the credit union.

The power to grant indulgences was given to the registrar after the legislation regarding statutory reserves was changed in 1970 and came to be based on a calculation of loss exposure. Credit unions that could not make the required allocation of surplus to statutory reserves could apply to the

Norm Bromberger, general manager and chief executive officer of Credit Union Central of Saskatchewan since 1973. He was secretary-treasurer of the Mutual Aid Board from 1973 to 1977 and has been a member of the Board since 1977.

registrar for an exemption. The registrar could then refer a credit union to the Mutual Aid Board for financial assistance in the form of a guarantee of operational losses, permitting the credit union to pay a reasonable dividend. In 1971, there were 44 requests for indulgence, and 12 credit unions were referred to the Board for guarantees. In 1972, the Indulgence Committee was set up with representation from the Board and the Department of Co-operation to review the applications from credit unions, and make recommendations to the registrar.

The 1972 legislation regarding supervision had implications for the operation of the Board. The Board or its representatives could exercise authority only in credit unions that were declared to be under supervision. Central staff could act as agents or employees of the Board, but they only had authority as delegated by it. Supervision implied making suggestions or recommendations to credit union management or officials to bring about the desired improvements in policies or operations. Administration provided for credit unions to be taken over by the Board and operated until necessary improvements were made.

A summary of the situation in 1974 showed that three credit unions were under supervision, and four other credit unions had received Mutual Aid Board advances but were not under supervision. It was Bromberger's opinion that, if the Credit Union Act were interpreted more strictly, they would be placed under supervision. In addition, there were seven credit unions with management contracts and Development Fund assistance, and 12 credit unions that had been granted dispensations from the Indulgence Committee.[11]

Aside from the fact that not all credit unions needing supervision were getting it, there was a feeling that the Board's powers were inadequate. In a letter to John Barr in 1974, Board solicitor Joe Dierker gave his opinion that the Board had little real power when a credit union was under supervision, and that the registrar could turn down a request to place a credit union under administration.

The Board task force in 1974 proposed several amendments to the Credit Union Act to strengthen the Board's supervisory powers. It said that all credit unions should be subject to supervision at the discretion of the Board, and the registrar should not be able to prohibit supervision. Also, the Board should have sole discretion to decide when to terminate supervision, and could place a credit union under administration unless the registrar disallowed its order within 15 days. The task force also recommended that the Board monitor all credit unions at least annually, and it established criteria for determining whether a credit union was conducting its affairs in a financially unsound manner. The supervision powers of the Board were strengthened in later amendments to the Act, although not all of the task force recommendations were adopted.

Dissolutions and amalgamations

The Board also developed policies to deal with dissolutions and amalgamations involving credit unions in which it had a financial interest. The number of dissolutions had dwindled but there were numerous amalgamations — 32 in the period from 1970 to 1977.

In 1974, the Board task force developed a policy for assistance in cases of amalgamation. The Board would guarantee the aggregate of operating

losses of the present year to the date of the amalgamation, capitalized expenses of the preceding year, and past-due and current-year installments of Development Fund loans. From this amount would be deducted any amounts in the general reserve and undistributed surplus of the amalgamating credit union.

The Board also undertook to purchase bad loan losses in excess of statutory reserves at the date of the amalgamation, and guarantee future losses for five years on loans assumed by the continuing credit union, to a maximum of five per cent of the loan portfolio assumed.[12] Bad loans were defined as loans where there had been no payment of interest or principal for at least two years, losses on foreclosed property, statutory writeoffs, and other mutually agreed upon loan losses.

The Board had been assisting the development of credit union branches through amalgamations since the late 1960s. In 1974, Drake Credit Union asked for Board assistance for the development of a new branch at Lanigan. The Board decided to extend its policy to include new branches. The policy established in 1975 provided for Board approval for the capitalization of branch development costs up to a maximum level. These costs could be written off against income over a five-year period, provided general reserves were not reduced below the amount of the capitalized costs. In 1979, a new formula for branch development assistance was created. The Board would provide a loan of three per cent of branch assets, or $100,000, whichever was less, with repayment in two years.

Size of the Fund

The primary duty of the Mutual Aid Board was to be prepared to deal with any problem that might arise. That meant the Fund had to be large enough to cover any necessary assistance to credit unions or payouts to depositors. In the original legislation in 1953, a goal of one per cent of total credit union assets had been established for the Fund. Ten years later, the feeling seemed to be that, when the Fund reached $1 million, it would be possible to begin returning assessments to credit unions. That goal was reached in 1964, but the need for continued growth remained, as total credit union assets continued to surge upward. By 1970, the Fund had reached $4 million and few people were saying it was too large.

A new method of determining fund adequacy through the use of a computer model was devised by Prof. R. W. White in British Columbia. Beginning in 1974, the model was used to test the adequacy of the Mutual Aid Fund. In subsequent years, the model was refined to suit economic conditions in Saskatchewan more closely.[13]

The basic problem in arriving at an adequate figure is determining the number and size of potential claims on the fund. White devised a simulation model of the Fund using a formula composed of six variables: loan

delinquency rate ratio of total loans over total assets, coverage, or net revenue over total revenue financial risk, determined by adding loans payable and accounts payable and dividing by total assets operating efficiency which was net operating expenses divided by total assets and a growth index.

After data from all credit unions were fed into the computer, the White model was used to arrive at a "probability of distress", rating all credit unions as to the likelihood of their drawing on the Fund and the likely size of the claims. In 1976, his model showed that the Fund was about $7 million short of what it should be, but after consultations, it was decided that the model needed some updating to suit the circumstances more closely.

Since then, the Board has developed a sophisticated monitoring system and is developing the capability to construct models providing a more comprehensive analysis of various operating conditions and simulating a variety of scenarios. The goal of the Fund remains one per cent of total credit union assets, and it has consistently been at or near that level since the late 1960s.

Investments

In addition to ensuring that the size of the Fund was adequate, the Board had to maximize the safety of the Fund and maintain its ability to absorb the costs of preventive services by earning a reasonable return on the Fund. This meant that an investment policy was required. In the early years, most of the Fund not on loan to credit unions was held in Credit Society shares and term deposits. Later, the Board invested in Co-operative Trust Company shares and guaranteed investment certificates and in Saskatchewan government bonds as well.

A firm investment policy was not established until 1974. The basic policy was to invest a maximum of 50 per cent of the Fund in government bonds or bank or trust company deposit certificates, and the remainder in the Credit Society and Co-operative Trust.

In 1978, the policy was revised so that investments outside the credit union system would be at least 55 per cent of the total, and investment in Central shares would be 20 to 40 per cent. A maximum of 33 per cent of the total would be in maturities in excess of 10 years. The Board also contracted with Canadian Co-operative Credit Society to have its investment portfolio managed by the national society. That arrangement was terminated in 1982 because of the cost and the minimal investment activity.

A look at the Fund in October, 1982, demonstrated the need for investments to earn a good return. Of the total Fund assets of about $34 million more than $10 million were in assistance loans or acquired credit union loans earning no interest.[14] There was also the possibility of a substantial loss on a loan to University Credit Union in Saskatoon, whose

John Barr, the first manager of the Mutual Aid Board, a position he held from 1978 to 1982

activities were being wound up. As a result, it was possible that some ground might be lost in maintaining the target of one per cent of total credit union system assets. On the positive side, it was demonstrated that the Fund could absorb a sizeable loss and still suffer only a temporary setback.

Central Credit Committee

One of the most important preventive programs of the Mutual Aid Board related to loans. With the great influx of deposits into credit unions during the 1960s and 1970s, managers were almost forced to go out and solicit loans. An increasing number of them were large business loans and few managers had much experience in this rather complex lending field. Local credit committees rarely had the experience to assess or monitor business loans properly either. Inevitably, there were problems and it became clear that something would have to be done at the central level to prevent the situation from deteriorating.

One measure taken to deal with the problem was the provision in the 1972 Credit Union Act for the Mututal Aid Board to set up a Central Credit Committee to consider loan applications from credit unions. The new committee would concentrate its efforts on reviewing business loans and loans by credit unions to their own staff and directors.

The Central Committee was organized in May, 1972. It was composed of the members of the Credit Society credit committee, as well as the chairman of the Mutual Aid Board, and John Barr, who was handling much of the Board's administrative work. The committee immediately began to develop application forms and began to consider loan referrals in October, one month after the revised Act came into effect.

In its first month, the committee met 10 times and considered 55 loans, declining eight of them.[15] A special committee made up of three members of the Central Committee was set up to handle applications from credit unions under supervision or receiving financial assistance from the Board. Some of these credit unions were required to refer all loans of over $5,000 for approval.

The new regulations caused a certain amount of unhappiness in credit unions. In particular, some credit union officials whose loans were referred to the Central Committee felt that they had been reduced to the status of second class members and they considered resigning. The Board agreed that there were some legitimate concerns. At a meeting in December, 1972, it was suggested that a list of credit unions where loan administration was properly handled should be drawn up, and the regulations should be amended to permit approval of progressively larger loans. The list would have to be kept under constant surveillance.

By 1974, the Central Committee was very active. During the year, it considered nearly 1,000 loan applications, approving 762 loans for a total of $25.3 million.[16] The Board gave the Central Committee authority to ask for quarterly reports on some or all of the approved loans. It was also working to establish a more effective means of handling loans and reducing risks in the business loan area. It was considering the possibility of hiring a qualified individual to assess business loans on behalf of credit unions. At the same time, the Credit Society decided to hire a loss prevention officer.

There was also a feeling on the Board that existing legislation on loan approvals contained too many limitations and restrictions. It was proposed that loan granting limits and processing be made more flexible through broad guidelines in legislation, with specific limitations and controls granted by the Board on application by credit unions.

Another step taken by the Board to improve the quality of loans was the expenditure of $10,000 in 1974 for the preparation of a business loan manual, similar to one developed by the Credit Union Reserve Board in British Columbia. The manual, which was prepared by Wayne Nygren of the Credit Society, included a general statement of business loans policy under the Act, business loan applications, analysis of business loans, security requirements, and business loan follow-ups. The manual was completed later that year and distributed in 1975 to all credit unions and the Department of Co-operation inspection staff.

The manual was followed by a business loan course and lending seminars It appeared to help improve the ability of credit unions to process loans By 1978, the number of business loans referred to the Central Committee was double the amount in 1974 but the number of loans deferred or declined had not increased[17] In 1975, work began on an agricultural loan manual and a model credit union loan policy

In 1982, Gail Dell joined the MAB management team as supervisor of risk management services Among her duties were the updating and revision of operations, loans and policy manuals

Bonding and Insurance

Another important loss prevention function assumed by the Mutual Aid Board was bonding and insurance The Board had been involved in supporting programs, for example through its loans to credit unions for the purchase of safekeeping equipment In 1972, the Credit Union Act transferred responsibility for bonding and insurance programs from the Credit Society to the Board

Shortly after the Act was passed, a committee was set up to reassess credit union bonding and insurance requirements One issue singled out for special attention was fidelity and faithful performance Some people felt that faithful performance basically insured mismanagement There were also suggestions that credit unions should accept responsibility for a portion of each claim and that, since the Mutual Aid Board was responsible in the final analysis, it could carry re-insurance to protect the Fund against any catastrophic losses

Among the recommendations made by the committee in 1973 were the following faithful performance coverage should be mandatory; fidelity and faithful performance coverage should be 100 per cent of assets up to $3 million burglary and robbery coverage should be limited relative to safekeeping there should be mandatory deductibles except for losses caused by burglary, robbery, holdup and mail theft there should be "all risk" valuable papers protection, and there should be overdraft coverage with credit union directors being required to approve resolutions prohibiting overdrafts Most of these recommendations were incorporated into the coverage provided under a new contract with Co-operative Insurance Services Ltd (CIS) Blanket liability coverage of up to $1 million per occurrence was also introduced in 1974

Also in 1974, the Board began a policy of tendering for blanket bond and burglary insurance for a one-year period every three years The premium costs would be negotiated with the designated carrier annually and, if agreement was not reached, the Board had the option of inviting tenders on any anniversary date of the agreement

In 1977, when the three-year policy expired, the contract with CIS was extended At the same time, the Board began an in-depth review of blanket

Paul Dosch, director of operations of the Mutual Aid Board from 1978 to 1982

bond and burglary coverage in anticipation of the credit union system providing its own coverage. Under this program, credit unions would be responsible for deductibility (then 10 per cent of each loss), with the Board's bond program responsible for the balance of the loss. The Board would tender for re-insurance on losses of over $50,000. CIS could be contracted to administer the program for a percentage of premium income. The Act revisions in 1977 gave the Board the power to assess premiums to cover the cost of insurance programs and a separate insurance assessment fund was set up in its books.

In 1980, when the coverage was next renegotiated, there had been a noticeable shift in the types of losses. Until the mid-1970s, external losses such as burglary, robbery and forgery had predominated. After that, there were more internal losses, mostly under the faithful performance category. Many of the faithful performance losses were the result of unauthorized loans, and the danger of losses in this area was causing fear among credit union employees who felt their careers were being jeopardized. There was a feeling that better auditing and monitoring, and clearer policies and procedures were needed. The deductible on fidelity and faithful performance claims was increased from $10,000 to $50,000 in an attempt to improve the situation.

Meanwhile, the two leading credit union bond carriers in Canada CUMIS and The Co-operators (formed after a merger involving CIS) announced that they would introduce a common bonding program in 1981 They claimed that their loss ratios had increased significantly in the previous five years despite investments in risk management programs. Combined premiums were $11 2 million, while claims totalled $13 5 million for the two carriers in 1976-1980 Sixty per cent of all claims were in the faithful performance category They announced that faithful performance coverage would become optional, and the premiums for that coverage were increased sharply[18]

As a result of the increased cost of coverage and the continuing doubts regarding its value, the Mutual Aid Board decided in 1981 to discontinue mandatory faithful performance coverage It opted to commit more resources to loss prevention at the credit union level and to continue to build the Fund to provide additional "self assurance"

The fact that there continued to be problems, including some large loan losses in the credit union system only served to emphasize the continuing need for a stronger and more effective Mutual Aid Board A great deal of work was done during the 1970s to revise and improve legislation concerning the Board clearly determine the role of the Board in relation to Central and the government, build up the size of the Fund, and introduce policies and programs to deal with existing problems and head off potential problems The groundwork was well laid, and by the end of the decade, the Board and the Fund were in a position to be more affective than ever in protecting members' deposits

Footnotes

[1] Christine Purden *Agents for Change* p 86-87

[2] See Saskatchewan Wheat Pool, *The Carter Royal Commission and Canadian Taxation 1967* Regina. Saskatchewan Wheat Pool 1967 p 43 44, and CCH Canadian Ltd *Analysis of the White Paper on Tax Reform.* Don Mills, Ont CCH Canadian Ltd 1969

[3] Like other corporations filing tax returns, credit unions charge as an expense costs of doing business Interest and rebates are standard deductions for all financial institutions. Dividends on shares are deducted in credit unions since effectively the shares are a form of savings and the dividends are tantamount to interest In addition, credit unions are subject to a special tax rate of 25 per cent until they have achieved a certain level of what is, in effect a tax surplus account equal to five per cent of shares and deposits The underlying intent is that credit unions should have the ability to achieve at a low rate of tax a surplus account level somewhat similar to that which was achieved by the chartered banks prior to their being effectively taxed

[4] Mutual Aid Board, *Annual Report*, 1975

[5] President's report to the directors, Credit Union League of Saskatchewan, September 6, 1949.

[6] Baldur Johnson, Audit Report to Saskatchewan Co-operative Credit Society, 1969.

[7] Mutual Aid Board, *Annual Report*, 1971.

[8] Motion adopted by Mutual Aid Board, July 26, 1976.

[9] *FDIC: Symbol of Confidence* (Washington: Federal Deposit Insurance Corporation, 1980).

[10] Mutual Aid Board meeting minutes, June 27, 1975.

[11] Memo from Dale Hallmer to Norm Bromberger, July 17, 1974.

[12] Mutual Aid Board, *Annual Report*, 1975.

[13] See Richard Eckert, *Credit Union Equity and Reserves* (Regina: Saskatchewan Co-operative Credit Society, Ltd., November, 1977), p. 11-13, and *Credit Union Way*, October 25, 1978.

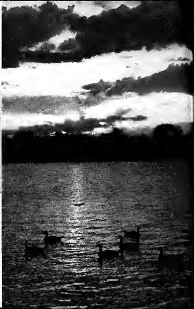
[14] Mutual Aid Board investment report, October 31, 1982.

[15] Secretary's report to Mutual Aid Board, December, 1972.

[16] Mutual Aid Board, *Annual Report*, 1974.

[17] Mutual Aid Board, *Annual Report*, 1978.

[18] *Credit Union Way*, March 11, 1981.



CHAPTER SIX

A New Sense of Direction

Without question, a major watershed in the history of the Mutual Aid Board occurred in 1977, the 25th anniversary of the passage of amendments to the Credit Union Act enabling the Fund to be set up. The significant event in 1977 was again the passage of amendments to the Credit Union Act. The amendments clearly set out the new expanded responsibilities of the Board and enabled it to establish itself as a much more important factor in the future operations of the credit union system. In a sense, the amendments in 1977 marked the culmination of a quarter century of efforts by credit union leaders to develop the organizational structures and relationships, as well as the rehabilitative and preventive programs that would best serve the needs of the credit union system in Saskatchewan.

New structure

The actual work of revising the legislation as it applied to the Fund was begun in 1974, at a time when the Mutual Aid Board was in the middle of a major effort to set down clear policies in areas such as supervision and amalgamation; clarify its role in relationship to both the government and Central; negotiate an agreement with the CDIC as lender of last resort; and determine the implications of changes in the Income Tax Act.

It had become clear to the Board by 1974 that the Credit Union Act, as rewritten in 1972, did not go far enough in defining the role and powers of the Board. In May, 1974, the Board initiated the task of reviewing and rewriting the sections of the Act dealing with the Fund. While it took almost three years for the recommended amendments to be passed into law, there

The men seated at the table were members of the Credit Union Deposit Guarantee Corporation (Mutual Aid) Board in 1983. They are (left to right): Norm Bromberger, chief executive officer of Credit Union Central of Saskatchewan; Morley Meiklejohn, executive director of the investment and financial services branch in the Saskatchewan Department of Finance; Vic Keep, general manager of Assiniboia Savings and Credit Union, and chairman of the Mutual Aid Board; Les Tendler, general manager of Sherwood Credit Union and president of Credit Union Central of Saskatchewan; and Bill Reader, deputy minister in the Department of Co-operation and Co-operative Development. Standing are: Ed Cunningham (left), director of the Deposit Guarantee Corporation; and Peter Wouters, Central's vice-president for Mutual Aid Board/Planning and Development, and secretary of the Mutual Aid Board.

was general agreement within the credit union system in the mid-1970s on the shape that the Mutual Aid Board should take. The most important element in the amendments was that, for the first time, it was clearly stated that there was an unlimited guarantee of all shares and deposits in credit unions. While it had, no doubt, always been understood that the Fund provided such a guarantee, it was now written into the law. The debate over deposit insurance, which had been going on for nearly a decade, played a part in the decision to have the deposit guarantee stated explicitly in the legislation.

In order to support its full guarantee, the Board was given wider powers in prescribing standards of sound business and financial practices, inspection, supervision and administration of credit unions. The emphasis on loss prevention was restated in the amendments, in fact, it was now quite clear that prevention was to become the primary role of the Board. To

further strengthen the guarantee, the Board was given the power to borrow money from the Canada Deposit Insurance Corporation which had been designated as a lender of last resort under the agreement negotiated previous to the passage of the amendments.

The amendments also stated more clearly how the Mutual Aid Board was to be structured. The 1972 Act had simply stated that three members of the Board were to be nominated by the board of directors of the Credit Society. The 1977 amendments retained the five-member Board, with two members to be appointed by Central's board. One of the two was to be a director of Central. The third credit union system representative on the Board was to be the general manager or his nominee. Hitherto, Central's general manager had served as secretary-treasurer of the Board. This change would permit the most knowledgeable officer in the credit union system to play a direct and active role in the decision-making of the Board.

The question of the two government appointees to the Board was also clarified. The 1972 Act had provided for appointment by the government of two Board members who were not nominated by the board of the Credit Society. In fact, during the period from 1972 to 1977, there was never more than one government official on the Board. After Al Snell retired in 1973 he was replaced by his successors in the Credit Union Branch of the Department of Co-operation and Co-operative Development. The second non-nominated government appointee was always someone from the credit union system.

The 1977 amendments, however, made it clear that, in addition to the three Board members from the credit union system, one should be the deputy minister of co-operation and co-operative development or his nominee, and the other should be the deputy minister of finance or his nominee. The addition of the deputy minister of co-operation was useful since, as registrar of credit unions, he was required to authorize Board actions in a number of areas. By sitting on the Board, he would have more direct, first-hand knowledge of its policies and programs. Representation from the Department of Finance was also seen as being beneficial in that the "outside opinions" of someone with experience in financial management and knowledge of government financial policies were of value in Board deliberations.

The amendments helped to clarify the respective roles of the Board, the Department of Co-operation and Central. The Board would continue to emphasize prevention, with monitoring of credit unions as its primary function. The Department was responsible for public protection and administration of the Credit Union Act. It would carry out inspections at the request of the Board or as a result of problems identified in the Board's monitoring. Central would continue with its development programs and services.

A management team

The increased powers and more active role of the Mutual Aid Board meant that it would be needing its own management personnel. The existing arrangement whereby Central provided management to the Board on a contract basis was continued, but Central's management structure was reorganized in 1978 to accommodate the expanded role of Board functions. A separate Mutual Aid Board division was set up in Central and John Barr, who had been doing a great deal of work for the Board during the previous decade, was appointed manager. Paul Dosch, who had also been active in Mutual Aid Board work for several years, continued as director of operations. For the first time, the Board had its own management team.

For several years after these appointments, Central's district program (later district development) managers carried out operational duties for the Board under the direction of Barr and Dosch. While this arrangement worked well in most respects, one problem encountered was some confusion of the roles of district managers in the minds of credit union management. After Barr retired in 1982, there was a further reorganization of Central's management. The Mutual Aid Board's management team, under its new director Ed Cunningham, was enlarged and more Board functions were transferred to it. The district development department could then concen-

The Deposit Guarantee Corporation (Mutual Aid Board) management team in 1983 consisted of (left to right): Greg Wallace, loss prevention manager; Doug Glessing, financial analyst; Gail Dell, risk management supervisor; and Ed Cunningham, director.

trate its efforts on development priorities. Co-ordination of the various interrelated functions was achieved through the appointment of Peter Wouters as vice-president in charge of Mutual Aid Board/Planning and Development.

Further amendments to the Credit Union Act were passed in 1978 increasing the responsibilities of the Board in the areas of capital expenditures and borrowing by credit unions and loans to credit union members. Also approvals of incorporations, amalgamations, and dissolutions, the granting of indulgences, and the approval of credit union audits by the registrar were done in consultation with the Board.

While these amendments were being passed to help the Board carry out the role that had been defined for it, there was also a need for extensive revisions to credit union regulations. Many parts had not been changed since the original Credit Union Act had been passed in 1937. Meanwhile, the credit union system had grown enormously and matured. A far greater level of self-regulation was possible than in the early years. John Barr and other representatives of the Board played an active part in the Act rewrite task force beginning in 1978. By 1981, revision of the Standard Bylaws was completed, and the task of revising and rewriting the Act was nearing completion in 1983. Mutual Aid Board management continued to play a leading role in this work.

The theme of increased self-regulation had implications for the Board as well as for the government. It meant that the Board would step up its monitoring progam but refrain from direct intervention in credit unions unless there was no other alternative. This had always been the approach used by John Barr, but now, even with its increased capacity to intervene, the Board continued to affirm the principle of self-regulation and work toward it in the revision of legislation.

New strategies and policies

In 1977, Central staff was assigned, on behalf of the Mutual Aid Board, to develop aims, objectives, strategies and policies for the operation of the new Board. A year later, a list of proposed functions for the Board included the following: establishment of internal audit standards; emergency examinations with the district program manager, particularly if an operational survey was required; review of all audit and inspection reports, development of an early warning system, work with Department of Co-operation inspectors, loss prevention, through the establishment of equipment standards and operation of the bonding program, Central Credit Committee and business loan follow-up; and responsibility for development and implementation of an overdraft model.[1]

In a letter to credit unions in 1979, John Barr said that the review of aims, objectives and strategies had been completed. The revisions reflected the self-regulatory effect of recent legislative amendments, he added. The

Board would continue to focus on prevention while credit unions would be responsible for their own operating results The early warning system would have a high priority The top priorities for the Board, according to Barr would be the development of good lines of communication with credit unions and with other stabilization funds The amount of self-regulation in a credit union would be determined by the credit union's ability to operate as a viable unit

Supervision

The supervision policy of the Mutual Aid Board was refined under the direction of John Barr as well The Board was authorized by the Credit Union Act to place credit unions under supervision under certain circumstances, for example, when credit unions failed to develop adequate reserves or adequate plans and policies, or failed to operate in a sound and business-like manner

However, the policy was to place a credit union under supervision only if moral suasion failed to rehabilitate a credit union or resolve its problems The first approach would be for the Mutual Aid Board management to discuss the situation with the credit union's leaders, gain agreement on identifying the key problems, evaluate action plans, and suggest a developmental approach to resolve problems If that was not accepted by the credit union, or if its financial performance continued to be less than adequate, controls would be recommended Where a potential claim on the Fund was discovered through an examination of the key risk areas, immediate action would be initiated by the Board management to protect the Fund and prevent losses No formal supervision order could be issued without the concurrence of the registrar

The Board would follow a particular procedure in these cases MAB management or a district program manager would meet with the board and management of the credit union to explain supervision The Board would advise the credit union and the registrar that the credit union was being placed under supervision The credit union would then have 15 days to appeal the notice

The Mutual Aid Board could request a government inspection of all credit unions under supervision The credit union's board would continue to function with all its rights and responsibilities, but the manager would receive direction and assistance from the Mutual Aid Board. During the 1970s, responsibility for supervision cases rested with the district program managers However, with the reorganization of Central in 1982 a loss prevention manager, Greg Wallace, was appointed as part of the MAB management team, with responsibility for dealing with credit unions under supervision Where necessary, the Board could require a credit union to engage Central through a management agreement

There were two phases to supervision. In the short run, attention was focussed on revising policies, rates, services, and procedures. There would also be a long-term development program involving long-range planning, board/management development, and reserve building.

The progress of the credit union would be monitored closely, with management being required to prepare accurate reports for both the credit union board and the Mutual Aid Board. These would include financial and statistical reports, overdraft reports and management reports. The Board would also determine when a credit union could be taken off supervision. Supervision would be discontinued when the conditions that caused supervision disappeared, for example, when operating losses and past losses were repaid.

One way in which a credit union could be placed under supervision was if it requested permission from the Mutual Aid Board to reduce its reserve allocations below the required level or to capitalize expenses. As mentioned in Chapter 5, the Indulgence Committee (re-named the Performance Review Committee in 1982) was set up by the Board in the early 1970s to review these applications. In the period from 1977 to 1980, between 14 and 16 applications for indulgence were approved each year.[2] Following each approval, the credit union was informed that a contingent liability to the Mutual Aid Board had been created and the credit union would be subject to supervision. These credit unions were also placed on the Board's "watch list".

The total level of contingent liabilities was growing. It rose from $736,000 in 1979 to nearly $1 million in 1980 and $2.6 million in 1981.[3] Statutory reserve deficiencies and capitalized deficits accounted for the largest proportions. The Board repeatedly urged credit unions to build reserves over and above the statutory requirements to provide a cushion for unexpected contingencies. One report showed that 1982 was a record year for undivided surpluses, but there was a trend to increased delinquency and loss exposure on loans. It was suggested that the concept of a doubtful account reserve be incorporated into the 1983 Credit Union Act rewrite.[4]

Loan monitoring and assistance

Problems continued to crop up as a result of the lending practices of credit unions, particularly in the area of commercial lending. According to one estimate in 1979, 90 per cent of all bad debt write offs in Saskatchewan credit unions were for business loans.[5] A report to the Mutual Aid Board expressed concern about the inability of credit unions to analyze business loans properly or monitor them adequately.

While both Central and the Mutual Aid Board were encouraging credit unions to get into commercial lending, they realized that credit unions would need help to reduce the risk and realize the profits. One area of

District meetings have long been a vital part of the information sharing process in the credit union system. Speaking at this meeting in Assiniboia in 1977 is Vic Keep. He was elected chairman of the Mutual Aid Board in 1979.

assistance was in training and policy development. In 1979, Central hired an experienced commercial loan analyst, Ron Stroich it prepared a loan policy statement for recommendation to credit unions, it drafted standardized application forms, and it held a series of workshops on business loans.

In 1980, Central held more commercial loan seminars, and introduced a commercial loans policy and a new format for analysis of loan applications. In 1981 seminars were held on the subject of insolvency and bankruptcy and, in 1982, Central reorganized its lending services and introduced a commercial loan consulting service.

Another method of improving the quality of commercial loans was through the system of loan processing and loan approvals begun by Central and the Mutual Aid Board in the early 1970s. The Board's Central Credit Committee was responsible for approving, declining or amending loans submitted to it, on the basis of information provided by the credit union. The committee would evaluate loans and advise the Board on credit union lending policies. Central's loan services department served as a resource to the Board, processing loans submitted to the Central Committee, and

reviewing loan applications to ensure that sufficient information was available.

One requirement of the 1972 legislation was that all business loans and loans to credit union officers, directors or employees in excess of $15,000 had to be submitted to the Central Committee for approval. The only exceptions were for certain larger credit unions with healthy levels of reserves. By 1977, there was a growing feeling in credit unions that the $15,000 limit was too low, and credit unions were having difficulty competing in the loan field because of the length of time needed to approve all but the smallest business loans.

As a result, in 1978, the Standard Bylaws were amended to remove this limitation. Credit unions could apply to the Mutual Aid Board for "approved lender status", and the onus was on them to suggest an appropriate new lending limit. Policy guidelines were established to determine what the limits should be. For example, delinquency had to be less than three per cent of total loans, loss exposure less than 25 per cent of reserves, and reserves had to exceed loss exposure by more than one per cent of total loans. The requirements for total exemption remained the same, and the performances of credit unions were reviewed annually.

Credit unions responded to the change favorably and applied for very realistic limits, based on their local situations. By 1981, approved lender status was granted to 33 credit unions. When the Standard Bylaws were rewritten in 1981, the Mutual Aid Board retained the discretion to determine limits on business and other loans made without Central Committee approval. The limits on unsecured loans and loans by management without credit committee approval were also increased to allow credit unions to be more competitive.

To speed the processing of loans submitted to the Mutual Aid Board for approval, powers of approval were divided according to the size of the loans. The smallest loans submitted could be approved by Central's director of loaning services or a designated department head. Larger loans were approved by a credit committee appointed by Central management, and still larger loans were approved by a credit committee appointed by Central's board. Loans of over $15 million had to be approved by Central's board or executive. The limits at each of these levels have been increased several times since 1977.[6]

The number of loans processed through the Central Committee each year grew rapidly during the 1970s, passing the 2,000 mark in 1978. Since then, it has remained relatively constant, but the approval rates have improved, while the number of loans declined or returned for more information has dropped. That would seem to indicate an improvement in the documentation and handling of business loan applications by credit unions.

Credit union audits

By the late 1970s, monitoring had become a central function of the Mutual Aid Board. For many years, one of the most important means of monitoring the performances of credit unions was the audit. In the early years of the movement, the Department of Co-operation and Co-operative Development audited all credit unions. By the 1950s, most of the larger credit unions were using audit firms to do this work. The quality of auditing services provided by firms varied considerably and the cost of auditing was an additional expense for credit unions. As a result, the Credit Union League began to consider the possibility of establishing its own audit service. A recommendation to that effect was approved by the League board in 1955, but no action was taken. The idea was considered again several times during the 1950s and 1960s, but a League audit service was never established.

In 1965, the conclusion of a study conducted by the League was that it should arrange for a standard audit with a number of auditing firms. In 1969, a report by Baldur Johnson, then secretary of the newly amalgamated Credit Society, mentioned a number of alternatives that had been considered, including a League audit department, a contract arrangement with an audit firm, an audit service provided by the Department of Co-operation, and a co-operative audit service run jointly with other co-operatives. All of these options were dropped.

One of the recommendations of Johnson's report was that the Mutual Aid Board be empowered to require a special audit or survey of any credit union where it considered such action to be necessary. The report also suggested the possibility that the Board assume some responsibilities from the registrar.

In 1970, the Mutual Aid Board approved a motion requiring credit unions receiving advances of funds to furnish any details required to Board representatives. Credit Society staff were asked to represent the Board in the field, and auditors and Department inspectors were asked by the Board to look for any violations of terms and conditions among credit unions receiving Mutual Aid Board assistance.

There was also continuing concern that audits, particularly loan audits, were not detailed enough. A meeting of representatives of the Board, the Credit Society, the Department and auditors was held in 1971. Credit unions were upset about having to pay both audit and inspection fees. The Department was talking about reducing its inspections and relying on auditors' reports, limiting itself to examining weak credit unions. Meanwhile, auditors said a full audit of loans would increase costs substantially. There was some feeling that the new legislation setting up the Central Credit Committee would introduce some needed controls over lending activities.

Later in 1971, the Role Committee reviewed a schedule of minimum audit requirements and suggested a check list for auditors. One audit firm in Swift Current was already making inspections of loans. In 1973, it was agreed that the Department of Co-operation should develop minimum audit standards in consultation with the Institute of Chartered Accountants and representatives of the Mutual Aid Board and the Credit Society. Already, one of the problems being considered was the tracing of the audit trail where computerized accounting was being used.

In 1977, the Mutual Aid Board sponsored a meeting attended by representatives of 16 audit firms. They reviewed roles and outlined controls on Central's automation system. Mutual Aid Board staff were asked to develop a proposal to maintain high standards for credit union audits and produce a list of approved auditors.

The total auditing process was composed of five parts, as Paul Dosch described it in 1978.[3] There was the audit, which was a balance sheet and operating statement verification carried out by an accounting firm. The Mutual Aid Board would carry out an examination of a credit union's internal operations, policies, margins, liquidity, and markets. An inspection, at the request of the Board, would provide a follow-up on special problems, loans, or loss exposure. Internal audits would involve an examination of operations, procedures and internal controls by credit unions. In addition, the government would examine credit unions to ensure compliance with legislation and fulfill the government's role as protector of the public interest.

In 1978, an audit task force, composed of auditors and representatives of the credit union system, was established, and it continued to meet annually to review relations between credit unions, auditors, the Board, and the Department. In 1978, it studied audit guidelines, auditors' reports, evaluation of credit union outputs, and control procedures. In following years, it also studied commercial loans processing, financial reporting of credit unions, data processing systems controls, the allowance for doubtful accounts, the early warning system, fidelity bonding and other matters related to strengthening the auditing process.

In 1979, Mutual Aid Board manager John Barr and Ed Gebert, a former chairman of the Board, were appointed to a national committee of the Canadian Institute of Chartered Accountants to research credit union financial reporting and the auditing of credit unions. A regional advisory group to the CICA was also set up and was assisted by the Mutual Aid Board's audit task force.

In 1980, Central, in conjunction with the Board, established an internal audit system with the aim of stabilizing costs and improving audits in the credit union system. The internal audit department, which was expanded in 1981, concentrated on electronic data processing (EDP) audit, developing

internal audit formats for credit unions, managing access to audit software for auditors and educating them in its use, and conducting special audits requested by the Board.

The expanded monitoring program

The Mutual Aid Board had increased its involvement in the auditing process in 1977, when it was given its broadened mandate as a deposit guarantee fund. Auditing became one aspect of the new and more comprehensive monitoring program initiated in 1977. Known as the early warning system, the program was patterned to some extent on the system developed by the FDIC. It included the annual audits, internal management controls by credit unions, inspections by the Department of Co-operation, and two new programs: the integrated monitoring system, and the probability of distress model.

The integrated monitoring system (IMS) was developed by the Board, Central and the Department of Co-operation statistics branch as an improved alternative to the reporting system operated by the Department. It involved the submission by credit unions of monthly and quarterly reports to Central. Central processed the information and returned the composite results to credit unions.

The monthly reports included selected balance sheet figures and cash flow totals, and the statistics from Central covered cash flows, interest rates and liquidity. The quarterly reports were complete three-month financial reports and were used to generate in-depth information on key performance areas: reserve ratios, surplus distribution potential, loss exposure and expense-revenue ratios. The performance of a credit union was compared with aggregate ratios of similar sized credit unions and the combined ratios of all reporting credit unions.

The IMS began as a pilot project and, by the end of 1977, 115 credit unions were on the system. The number had increased to 188 credit unions with 90 per cent of all assets by early 1979 and, by the end of that year, all but six small credit unions were reporting regularly.[8] One of the incentives for them to join was agreement by the Department of Co-operation to accept IMS data as meeting the legal requirements for reporting to government and to Statistics Canada, thus eliminating a great deal of time-consuming paperwork for credit unions. In addition, the Department discontinued the "loans by purpose" reports, which were lengthy but of no use to credit unions. Responsibility for development of the program was in the hands of Sheila Ebbels (formerly Ottenbreit), who became financial monitoring officer for the Board in 1978. In 1981, Doug Glessing took over management of the monitoring system.

In 1980, work was begun on revising the IMS so it could provide credit unions with the additional analytical and comparative information they were requesting. The plan was to replace the IMS software with new

programs to be run on the computers of The Co-operators and Central. At the same time, consultants were hired to study the feasibility of developing a common EDP general ledger data base for credit unions. The revised IMS program would be able to interface with the new general ledger system.

One of the problems with the original IMS software was that it was not possible to store data or modify programs. The revised software system, which became operational in 1982, provided active storage of data for three years, with back-up for an additional seven years. The new system could operate on-line, accepting data input by terminal or by interface to the credit union on-line general ledger system. The registrar agreed to discontinue the monthly IMS reports, so more analysis could be done on the quarterly reports.

While data collection from automated credit unions was greatly enhanced with the new system, reports from "off-line" credit unions still caused some delays. Nevertheless, the aim was to reduce the turnaround time from six weeks to three weeks. An additional advantage of the new system was that the data base was accessible to a number of system software packages, such as Financial Forecasting and Modelling, Culprit and Statistical Analysis, making it possible to develop a management information system capable of meeting many of the expressed needs of credit unions.

The Mutual Aid Board used the statistics from the IMS to prepare a quarterly risk ranking of all credit unions based on the probability of distress model. Certain of these credit unions would be placed on the Board's "watch list." For example, in the period between 1979 and 1982, the number of credit unions in the "potential payoff" category rose from two to four. The number of credit unions in the "serious problem" category fluctuated between four and ten, while there were anywhere from 44 to 55 credit unions in the "other problem" category. Credit unions with operating deficits or liquidity deficiencies were also identified. Those in the "potential payoff" category were usually placed under supervision.[9]

Operational surveys

If a credit union finds itself in financial difficulties, it has the primary responsibility for resolving its problems. However, financial assistance is available from the Mutual Aid Board when serious problems exist, and technical assistance is available in a variety of forms from Central.

The operational survey was one device developed by the field staff of the League in the 1960s to identify and analyze problems and suggest strategies for solving them. These surveys continued to be used frequently during the 1980s, although they were intended increasingly as preventive and planning tools rather than problem-solving and rehabilitation aids.

Operational surveys are conducted at the request of credit unions. They are carried out by a team of four to six persons from Central, co-ordinated

by a district development officer. Personnel from loan services, data processing, and human resources may be included on the team. Before beginning the survey, the district development manager meets the board and management of the credit union to determine the reasons for the survey, ensure full understanding of the program, and establish the credit union priorities and survey objectives. Commitment of the board is an important factor.

The survey itself is a thorough fact-finding examination of all the credit union's operations, measuring the actual situation against recognized standards. The team gathers its information by studying the organizational structure of the credit union and how effectively it is functioning, its procurement and use of capital, its growth and development, and its sales and marketing programs. A comprehensive report is written and submitted to the credit union. As many as 12 surveys have been conducted in a year and Central personnel have co-operated with other provincial Centrals in carrying out surveys.

The case of Unity Credit Union

The Mutual Aid Board has made use of operational surveys as part of its recovery program for credit unions in difficulties. It has provided assistance to many credit unions, but certain cases stand out because they played an important part in shaping the policies and programs developed by the Board. Arran and St. Gregor were important in that sense in the 1950s. In the 1970s, the experience of the Board in assisting Unity Credit Union played a key role in shaping its future. Again, the story had a happy ending.[10]

The problems began in the early 1960s when the province-wide economic upsurge led to rapid growth in the credit union: assets doubled in just five years. It was a free-wheeling period and controls on the growing volumes of money passing through the credit union tended to be rather lax. For example, not sufficient funds (NSF) cheques were covered by promissory notes. New loans had to be marketed to keep pace with the growing size of deposits, but loans were made without security, and delinquent loans were not followed up. So long as the economy remained healthy, the credit union could seemingly continue its "generous" policies and ignore the danger signs.

But a glut of grain began in 1968 and the Saskatchewan economy went into a nose-dive. The roof fell in on Unity Credit Union. The Department of Co-operation had conducted several loan audits and warned of serious problems — one report was 108 pages long. The Mutual Aid Board expressed its concern too, and eventually the credit union's board consented to have an extensive operational survey done.

The survey revealed the extent of the problem. The credit union had loaned out 105 per cent of its assets of about $3 million. Delinquent loans

Leon Breton, hired as manager of Unity Credit Union in 1970, was instrumental in guiding the credit union out of its financial difficulties.

totalled $1.54 million and there was a possibility that about $750,000 would have to be written off. The reserves amounted to only about $160,000. No loans had been written off to that time.

In 1970, the manager resigned and Leon Breton, who had spent seven years at Lafleche Credit Union, was hired to replace him. One of Breton's first tasks was to identify the most doubtful loans and possible losses on others. Eventually it was agreed that the Mutual Aid Board would provide $500,000 in an interest-free loan to cover potential write offs.

Half of the loan was made available in 1972 and the remainder the following year. Unity also became the first credit union to be placed under supervision by the Mutual Aid Board. The loan was by far the largest granted by the Board up to that time, but in retrospect a number of people involved at the time felt it was inadequate, making recovery unnecessarily difficult for the credit union. There were also stringent conditions attached to the loan. Dividends were reduced from six to four per cent and kept at that level for about five years. The bulk of earnings from the interest-free loan went into building up reserves. Loans were limited at first to $500, then to $1,000 per member. Later, all loans of over $7,500 had to be submitted to the Board for approval. A rigid collections program was set up, and a five-year period was established for the write-off of bad loans.

Breton was placed in a difficult position in attempting to set the recovery program into motion. The previous manager's overly generous attitude in handling the credit union's funds had won him many friends, so for the first year, Breton admitted later he may have been the most unpopular man in Unity. The restrictions on loans led to a loss of credit union members and several of the credit union staff resigned because they did not agree with the tough policies. There were several bankruptcies involving court cases at which Breton had to testify.

Breton persevered. Although at one point the Mutual Aid Board

criticized the credit union for not pursuing outstanding loans actively enough, he chose to counsel borrowers rather than hound them. He set up repayment plans rather than going after repossessions, and many of the delinquent accounts were settled fully. Also, as a very community-minded person, Breton soon became involved in local service clubs and minor sports and eventually became a "pillar of the community".

His approach paid off. In 1974, credit union assets jumped by 33 per cent to $7.5 million. Loss exposure was down to 17 per cent of outstanding loans, and the credit union was able to place $45,000 in statutory reserves, leaving $50,000 as undivided surplus. The credit union requested permission from the Board to pay a 10 per cent patronage refund and place $30,000 into general reserves.

It turned out that only $375,000 in bad loans had to be written off and by 1976 reserves were large enough to cover this amount. Repayment of the Mutual Aid Board loan was begun that year, and it was completed ahead of schedule in 1978. Unity Credit Union was formally removed from supervision early in 1978. Under the excellent management of Breton and with the active support of its board, the credit union continued to grow and prosper and, by the time he resigned as manager in 1982, assets had reached $28 million and loss exposure was less than one-half of one per cent. In spite of some hard feelings at the peak of the credit union's crisis, most members remained loyal and supportive.

UNITY
CREDIT
UNION

Unity Credit Union in 1959. It successfully recovered from financial difficulties during the 1970s, with assistance from the Mutual Aid Board.

The Mutual Aid Board learned several lessons from the experience at Unity. Its supervision policies have become more flexible, with interest-free loans being large enough to allow a more rapid recovery of reserves, and operational controls being less restrictive. As Breton pointed out several years after the problem had been resolved, the Board did all the right things, but it was too tough at the beginning.

In addition, the Board has shifted its emphasis to monitoring and prevention in an attempt to head off problems before they reach the crisis level. Even so, some financial losses, such as those at University Credit Union in the early 1980s, will probably always occur. Even the most sophisticated monitoring system depends on the commitment and integrity of the people feeding reports into it. In a democratic structure such as a credit union, the primary responsibility of the management is to the board and members. If, for whatever reasons, there are failures at the management level, the Mutual Aid Board can do no more than prepare itself to correct any problems that develop, while protecting the deposits of the members. In its first 30 years, the Board met every challenge that arose.

New credit union development

While ensuring the continued financial health of existing credit unions and guaranteeing deposits of their members have been the primary objectives of the Mutual Aid Board, the issue of new credit union development has been a concern as well. The vast majority of credit unions were established in Saskatchewan during the 1940s and 1950s, after the mid-1960s, the number of credit unions in the province began to decline. The number of dissolutions and amalgamations grew, and the Mutual Aid Board became involved in many of these cases.

Growth of the credit union system accelerated during the late 1960s and 1970s, but it was primarily through the expansion of the membership bases of existing credit unions rather than the establishment of new credit unions. Many of the amalgamated credit unions became branches of other credit unions. In addition, numerous new branches were established, and the Board became involved in providing financial support for branch development as well.

Some new credit unions continued to be formed, but they tended to be "special cases" of various types. For example, new caisses populaires were established to serve the French-speaking populations in Saskatoon and Regina. In addition, there was discussion in Regina about the possible formation of a credit union for professionals such as doctors and lawyers, similar to the Professional Financial Savings and Credit Union established in Winnipeg in 1980.

Legislation regarding the creation of new credit unions had not been altered significantly since 1937, a credit union could be established by as few as 10 members and have assets of as little as $50. However, there was a

growing feeling during the 1970s that, if a new credit union lost money, it would have to be bailed out by the credit union system. Therefore, other credit unions, through the Mutual Aid Board, should have a say in setting conditions under which new credit unions were set up.

At Central's 1980 annual meeting, delegates approved a resolution calling for an amendment to the Credit Union Act to provide that the Mutual Aid Board as well as the registrar must approve any application for the incorporation of a credit union. That amendment was not made, but in 1978 the Department of Co-operation had adopted the policy of consulting the Board before incorporating any credit union.

The Board, meanwhile, had established a set of criteria for ensuring financial viability in new credit unions. For example, there had to be a minimum potential membership of 2,000 with a minimum short-range membership of 500, the short-term break-even point was assets of $2 million (later revised upwards), there had to be a need for services, a degree of understanding about credit unions and financial services was required prior to incorporation, and local need and initiative had to be demonstrated.

Anti-Poverty Credit Union

However, while the continued financial stability of the system is essential to its survival, there have always been people within the credit union system who have maintained that there is a special social responsibility to assist financially disadvantaged groups. This led to several interesting attempts to establish new special-purpose credit unions.

One such effort led to the formation of a "store-front" operation known as the Anti-Poverty Credit Union in Saskatoon in 1973.[11] It was formed with seed money of $1,000 contributed by Saskatoon Credit Union, and some funds on deposit from a local church. The credit union was intended to provide a counselling service on money management and budgeting, and offer low-interest loans to applicants with no collateral and, most often, no prior credit rating. The rationale behind this venture was that many single parents with low family incomes and people on welfare were forced to borrow money at high rates of interest from finance companies or loan sharks. The new credit union would provide an attractive alternative for these people.

The experiment lasted for five years, during which counselling services and loans were provided for nearly 1,000 people. But the credit union lost money steadily and, in 1978, 60 per cent of its loans were in arrears. The credit union was dissolved in that year, with deposits and certain loans being taken over by St. Mary's Credit Union in Saskatoon. The losses, amounting to about $13,500, were absorbed by the Mutual Aid Board.

According to the credit union's manager, Doreen Russell, one reason for the failure of the experiment was the stigma of being a member of the credit union. Another argument put forward by a supporter of the concept

Maria Fischer, newly appointed secretary-treasurer of the Anti-Poverty Credit Union in Saskatoon in 1973, accepts the certificate of incorporation from Ted Prefontaine, one of the founders of the credit union.

was that the credit union had always been too short of capital to provide adequate help for low-income people. Total assets rarely exceeded $50,000; loans were limited to a maximum of $500 and, in fact were rarely more than $200. Members were unable to finance basic purchases such as furniture, appliances or cars.

The Mutual Aid Board, in recommending dissolution of Anti-Poverty Credit Union, took the position that income tax, counselling and loan services for low-income groups could be provided more effectively through special programs of existing, well-established credit unions, as was being done in Regina and Prince Albert. There credit unions had developed contractual relationships with local self-help and welfare rights organizations to provide many of the same services as those carried out by the Anti-Poverty Credit Union.

Northern credit union development

Another dilemma faced by the system is related to the problems of developing credit union services in northern Saskatchewan.[12] The problems are related to the nature of the northern economy and demography. The northern population is small and scattered over a large area, with few

settlements of any significant size. In addition, the northern population, both native and non-native, tends to be highly transient. Most salaried income is provided either by government services or mining ventures, both of which are rather unstable, since they are subject to changes in government policies and fluctuations in natural resource markets. In addition, most of the earnings from mining operations do not remain in the north. The other major source of income in the north is welfare payments from governments, and there is not a tradition of saving money among native populations.

Since development of new credit unions is normally associated with local initiative, a stable local population and economy, and an ability to generate a local capital base sufficiently large to support a viable operation, the prospects for credit union development in northern Saskatchewan are not promising. Indeed, the situation across northern Canada is similar. Credit union movements in Yukon and the Northwest Territories failed and the Saskatchewan system absorbed part of the losses suffered there. In northern Saskatchewan, credit unions started in Buffalo Narrows and Cumberland House during the 1960s never became financially healthy and were dissolved in the mid-1970s, with the Mutual Aid Board covering their losses.

Prince Albert Credit Union opened a branch in LaRonge, the chief administrative centre in northern Saskatchewan, in 1974. While assets at the branch had grown to $12 million by 1982, the branch had not shown a profit.[13] Meanwhile, chartered banks showed no interest in subsidizing banking operations in the north. In 1982, there were only three bank branches in all of northern Saskatchewan, and one of them was in the process of closing.

However, although there did not appear to be much likelihood of northern credit unions ever becoming viable operations, there has always been a certain amount of political and social pressure on the credit union system to initiate financial services for northerners. In the northwestern area, many people would travel hundreds of miles south to Meadow Lake to cash cheques or borrow money. In other areas, people had no alternative but to make use of very limited and costly financial services at Hudson's Bay Company posts. There was a desire for full-service credit unions, not just savings and loan services.

In 1978, Central joined the federal and provincial governments in setting up a steering committee to consider strategies for the development of northern credit unions. Because any new credit unions would become a contingent liability for the Mutual Aid Board, it was to be involved in any decision-making as well.

Since LaRonge, Uranium City and Buffalo Narrows were the trade and administrative centres of the North, it was felt that full-service financial institutions would only be possible in these communities in the foreseeable

The old Buffalo Narrows Credit Union during the 1960s.

future, while some limited services might be provided in several smaller centres.

Buffalo Narrows was the only one of the three larger centres with no on-site financial services, so a proposal was developed in 1979 for the establishment of a new credit union there. It involved the placement of an interest-free deposit of $1.25 million in the credit union for three years by the provincial government's Department of Northern Saskatchewan (DNS). After that, a reduced rate of interest would be paid on the deposit for a 10-year period. The earnings from this deposit would be used to underwrite development costs and allow limited reserves to be built up at the credit union.

The proposal was not acted upon, and negotiations continued between the government and Central regarding other possible alternatives. Further delays to development of the scheme resulted from the election of a new provincial government in 1982 and its subsequent dismantling of much of the Department of Northern Saskatchewan and integration of DNS functions with those of other government departments. DNS had been the most active promoter of the idea of developing special financial services for the north.

Despite the delays, it would be unfair to assume that the proposals have effectively died, or that the credit union system has grown more concerned with "playing it safe" than with introducing credit union services to people who need them. The LaRonge operation is evidence that one credit union has been willing to provide services to the north at a cost to itself. But, given the many complexities of development in the north, any plans to expand services must be carried out carefully.

Theme for the future: self-regulation

After 30 years of operation, the Mutual Aid Board had evolved programs and policies that left it in good shape to carry out its mandate. When the new management team assumed responsibility for Board duties from John Barr and Paul Dosch in 1982, the Board began a series of planning sessions. While this was the first major planning exercise by the Board in some five years, it did not signal the development of any major new thrusts. Essentially, the pattern for future development of the Board and the Fund was established with its restructuring in 1977-78. Its purpose and objectives have remained the same, although strategies continue to be refined and developed. As Peter Wouters described it in 1983, the foundation had been built, and work was progressing on the framing of the structure.

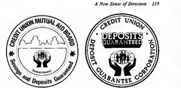
If there was an overall theme to the operations of the Board after 30 years, it was probably summarized in the frequently used term "self-regulation". The term refers in part to the relationship between the credit union system and the government: the system had, over a period of nearly five decades, achieved a size and level of maturity that allowed it to manage its own affairs to a degree that was not possible in the early years. This self-regulating capability was due, in large measure, to the impressive achievements of the Mutual Aid Board in its first 30 years of existence.

But the term also refers to the relationship between the Board and credit unions. In its earlier years, the Board concentrated on problem-solving and rehabilitation of credit unions in financial difficulties. These functions have continued, but they threaten to create an increasing drain on the financial and other resources of the entire system. As a result, the Board has, since the 1960s, placed increasing emphasis on preventive measures, and it has been shifting more of the onus for problem-solving to credit unions, in effect passing on increased responsibility for self-regulation to them. As deposit guarantor, the Board's primary responsibility is to the credit union member, but the credit union itself is the first line of defence in protecting member's deposits.

Public image

There is another, less easily measured, aspect to deposit protection. Good management and sophisticated internal operational monitoring and control systems go a long way toward ensuring that deposits are safe, but the survival of any deposit-taking institution also depends on public confidence and trust. Confidence is difficult to build and it is easily shattered.

To some extent, the concern within the credit union system about acquiring government deposit insurance through the Canada Deposit Insurance Corporation was related to this issue. The deposit insurance itself would not have increased the level of protection; in fact, existing deposit protection provided by the Mutual Aid Board was significantly more


CREDIT UNION MUTUAL AID BOARD
Saskatchewan
Savings and Deposits Guaranteed
CREDIT UNION
DEPOSITS GUARANTEED
DEPOSIT GUARANTEE CORPORATION

The logo of the Mutual Aid Board (left) and its replacement following the adoption of the name Credit Union Deposit Guarantee Corporation in 1983

comprehensive. But there was concern that the public would be led to believe that any deposits not covered by CDIC were not safe.

Such concerns were not entirely unfounded. For example, in 1976 a report by the Economic Council of Canada on the Bank Act review recommended uniform federal deposit insurance coverage through CDIC. It went on to claim that all credit unions outside of Quebec had no deposit insurance and that their reserves fell considerably short of providing an adequate substitute for deposit insurance. In British Columbia, which was mentioned specifically by the report, the credit union system braced itself for a possible run on deposits, while at the same time issuing public statements that its reserves were completely adequate. A potential crisis caused by incorrect information was averted, although perhaps the nerves of some harried credit union officials were unnecessarily shattered. There have been other similar incidents.

In Saskatchewan, the Mutual Aid Board has maintained a low public profile, preferring to work behind the scenes to maintain a stable credit union system in which deposits would be safe. But in 1968, when banks and other financial institutions began to advertise their links with CDIC, the Board decided to introduce plaques and decals that could be displayed in credit unions. Those early advertisements included the message: "Member — Mutual Aid Fund — Saskatchewan Credit Unions — Protecting your shares and deposits." This program continued and, particularly after the amendments to the Credit Union Act in 1977, the concept of a full deposit guarantee became a more prominent part of the advertising message. Marketing packages, including television and newspaper advertisements, brochures, counter cards and letters to members, were also introduced.

Another aspect of developing a positive public identity for the role of the Board was the decision to adopt a new name. The issue first came up in

1965, when there was a proposal to adopt the name "Credit Union Stabilization Fund", which would conform with the name being adopted in some other provinces and states. That suggestion was turned down by the Board.

A new proposal in 1982 was based on the public image issue. It was felt that although the term "Mutual Aid" was understood within the credit union system, it meant little to the public. The proposal to adopt the trade name "Credit Union Deposit Guarantee Corporation" was approved by the Board and legislation was amended to permit its use in 1983. While the legal name of the body continued to be "Mutual Aid Board", it was the policy of the Board to make increasing use of the term "Deposit Guarantee" in future.

A national stabilization fund?

To some extent, the desire to promote the deposit guarantee concept in Saskatchewan resulted from concern that negative publicity surrounding credit union systems and other financial institutions in some other provinces might spill over into Saskatchewan, even though the system itself was healthy. Beyond that, however there has always been a recognition of the fact that no provincial credit union system can isolate itself from what is happening elsewhere. A strong argument has long been made for extending the principle of "mutual aid" beyond provincial boundaries.

As early as 1959, Al Snell had suggested that there might be some merit in considering the idea of a national stabilization fund, although the international fund being discussed at the time seemed premature. In subsequent years, financial assistance was provided across provincial boundaries for credit union systems experiencing difficulties in Ontario, Newfoundland, Yukon and the Northwest Territories. Saskatchewan, as one of the healthiest provincial systems, saw some benefits in establishing some formal mechanism for providing such assistance.

In 1973, a committee with representatives from four provinces, including Saskatchewan, was set up by the National Association of Canadian Credit Unions (NACCU) to study the establishment of a national stabilization fund that would essentially provide stabilization in the form of a liquidity pool for provincial centrals.

In 1975, a national stabilization conference was organized by NACCU to discuss the tax issue, and review the financial and legislative structures of provincial funds and their relationship with the Canada Deposit Insurance Corporation. Co-ordination of efforts by individual funds was also discussed.

In 1977, NACCU was amalgamated with the Canadian Co-operative Credit Society (CCCS), and the financial resources of the new organization were greatly expanded to create a national liquidity pool. There were

suggestions that the CCCS had, in effect, become a form of national stabilization fund.

Meanwhile, a national stabilization task force was set up by CCCS to co-ordinate the development of provincial funds on a national basis, and a recommendation was made in 1979 to establish a national stabilization fund to assist in preventing losses due to credit union failure on a national scale.

There was some resistance to the idea of creating a national fund through contributions from provincial funds, and there also proved to be some legal barriers to transferring funds from one province to another. The proposal did not die, but no concrete action had been taken by 1983. Meanwhile, representatives of provincial funds did continue to meet regularly to compare notes and share experiences. Beyond that, the issue of whether or not to establish some form of national stabilization fund is likely to receive renewed attention in the future, particularly if there are new demands on credit unions systems across the country for financial assistance to provincial systems that are facing severe difficulties. Even if more provincial stabilization funds were able to negotiate lender of last resort arrangements with CDIC, a consensus may eventually be reached that additional attention should be paid to stabilization and rehabilitation at the national level.

Automation

There are other issues that the Mutual Aid Board may have to come to grips with in the future as well. A number of them are related to the increased automation of the financial industry. For example, computer fraud is a growing problem, but so little is known about it that the magnitude of the problem cannot be determined.

In 1983, the Board had no particular strategy in place to deal with computer fraud, although it was working with Central's data processing department to ensure that certain controls were built into the software. According to the Mutual Aid Board loss prevention manager, Greg Wallace, the major difference with computer fraud is that it can happen more quickly and involve larger sums of money than the more traditional types of fraud. The strategies used to deal with fraud cases would probably remain the same, although the tactics used would have to be updated.

Aside from the danger of larger losses through the abuse of computers to misappropriate funds, automation poses some rather broad questions regarding the future viability of credit unions. For example, is there any future for credit unions that do not become automated and consequently are unable to introduce services such as automated teller machines and debit cards? Beyond that, what will happen when home banking becomes commonplace and it is technically feasible for members to bypass credit unions completely and interact directly with the data base at Central? Home

computers could also add a new dimension to the democratic control system of credit unions, but the important point is that automation could lead to major restructuring of the credit union system.

A continuing need

No matter what changes do take place, however, a deposit guarantee agency will be needed for as long as there is a credit union system. In fact, the role of such an agency is likely to continue to expand in the future. In Saskatchewan, the Mutual Aid Board has built up a great deal of experience functioning as a deposit guarantee agency, and it has kept pace with changes to carry out the work expected of it by the credit union system. Given its record of success during its first 30 years of existence, there is ample reason to believe that the Mutual Aid Board will be able to cope with problems that it faces in the future. One could quite justifiably expect some future manager of the Credit Union Deposit Guarantee Corporation to reply (most likely via electronic mail) to a concerned credit union member with the same response that has been made many times in the past: "No credit union member in Saskatchewan has ever lost one cent in deposits, and we are confident that the money you have invested in your credit union is safe."

Footnotes

[1] General Manager's report to the Credit Union Central board of directors October 1978.

[2] Mutual Aid Board *Annual Reports*, 1977-80.

[3] Mutual Aid Board, *Annual Report*, 1981.

[4] Report to the Mutual Aid Board, December 3, 1982.

[5] *Credit Union Way* December 6, 1979 p 4.

[6] The loan approvals policy is explained in more detail in a management report to the Mutual Aid Board May 29 1981.

[7] Article by Paul Dosch in *Credit Union Way* January 25 1978 p 6.

[8] *Credit Union Way* March 26 1980 p 15.

[9] Management report to the Mutual Aid Board, September 24, 1982.

[10] *Credit Union Way*, June 15 1977 p 6-7.

[11] See *Credit Union Way*, June 28 1978, p. 14 and letter to the editor in *Credit Union Way* July 26 1978 p 17.

[12] Management report to Credit Union Central board of directors on northern development, January 26 1982, see also a summary of Central's brief to the Key Lake board of inquiry in *Credit Union Way* October 22 1980, p 9.

[13] *Credit Union Way* October, 1982, p 8-14.

APPENDICES

A COMPARISON OF FIVE CREDIT UNION DEPOSIT PROTECTION FUNDS IN CANADA, 1982

Name and Year Established	Assets (1982)	Percentage of system shares and deposits	Annual Assessment Formula	Management	Board
British Columbia Credit Union Reserve Board (est. 1959)	$58 million	1.19%	Maximum 1/5 of 1% of shares and deposits. Also issues interest bearing debentures	Independent of Central	5 government appointed members 3 from credit union system no government representatives required
Alberta Credit Union Stabilization Corporation (est 1975)	$29.8 million	1.37%	Maximum ¼ of 1% of shares and deposits	Managed by Central	5 voting members 3 appointed by Central board, 1 from credit union system 1 appointed by government 2 non voting members Central general manager and director of credit unions
Saskatchewan Mutual Aid Board (Credit Union Deposit Guarantee Corporation) (est 1953)	$32.8 million	1.12%	Maximum 1/5 of 1% of shares and deposits	Managed by Central	5 members 2 appointed by Central board Central general manager 2 government representatives

Name and Year Established	Assets (1982)	Percentage of system shares and deposits	Annual Assessment Formula	Management	Board
Manitoba Credit Union Stabilization Fund (est 1965 became mandatory fund 1970)	*	*	Maximum ¼ of 1% of shares, deposits and liabilities	Independent of Central.	5 government appointed members, chairman 2 representatives of credit union system 2 representatives of government No directors or employees of Central or any credit unions
Ontario Share and Deposit Insurance Corporation (est 1977)	$45.6 million	0.92%	1% of shares and deposits. Adjusted annually to maintain that level	Independent of Centrals.	9 government appointed members 3 nominated by Central: 3 nominated by caisse populaire federation 3 independent

* *Comparable asset figures not available*

APPENDIX I (Continued)

Name	Powers	Inspection	Share and Deposit Guarantee	CDIC Lender of Last Resort Facility
British Columbia Credit Union Reserve Board	Can place credit union under supervision or administration direct to amalgamate or dissolve Credit Union can appeal to government tribunal	Inspects credit unions under supervision Government inspects all other credit unions	Unlimited	Yes
Alberta Credit Union Stabilization Corporation	Credit unions in deficit position can be placed under supervision and control	Inspects all credit unions Government has monitoring function	Unlimited	Yes
Saskatchewan Mutual Aid Board	Can place credit unions under supervision or administration Normally done only if danger of loss to Fund	Government inspects all credit unions MAB monitors performances closely	Unlimited	Yes
Manitoba Credit Union Stabilization Fund	Credit unions in deficit position can be placed under supervision	Is auditor of credit unions with audit firms acting as agents Government conducts examinations	Unlimited	No
Ontario Share and Deposit Insurance Corporation	Can take a credit union under direction operating and managing it Director of credit unions can compel credit union to liquidate May use advice of OSDIC	All credit unions not required to have an external audit are examined	$60,000 maximum	No

APPENDIX II

GROWTH OF CREDIT UNION SYSTEM AND MUTUAL AID FUND ASSETS, SASKATCHEWAN, 1953-1982

Year	Total Number of Credit Unions	Total Assets	Members	MAF Assets	MAF assets as percentage of system assets
1953	268	$ 28,471,111	68,286	$ 22,972	0.08%
1954	279	29,467,356	75,854	55,960	0.19%
1955	284	32,356,118	80,396	90,112	0.28%
1956	283	38,646,038	86,036	127,181	0.33%
1957	284	44,825,002	92,981	170,505	0.38%
1958	279	56,450,159	103,289	222,842	0.39%
1959	276	71,681,185	117,777	270,000*	0.38%
1960	278	88,778,288	137,012	330,509	0.37%
1961	282	110,664,250	156,492	460,632	0.42%
1962	285	141,027,142	171,949	636,979	0.45%
1963	292	167,923,331	191,192	871,702	0.52%
1964	296	208,552,983	212,280	1,129,094	0.54%
1965	301	257,239,927	236,338	1,547,550	0.60%
1966	299	293,080,447	259,994	1,880,883	0.64%
1967	289	363,791,794	283,491	2,419,143	0.66%
1968	287	387,263,370	302,471	3,008,005	0.78%
1969	278	394,806,987	310,915	3,735,720	0.95%
1970	266	406,838,884	319,656	4,612,461	1.13%
1971	261	478,819,122	336,194	5,500,126	1.15%
1972	257	608,573,841	355,276	6,276,958	1.03%
1973	254	823,614,913	377,077	7,115,580	0.86%
1974	252	1,034,547,900	396,474	8,505,397	0.82%
1975	247	1,341,702,974	426,279	10,167,359	0.76%
1976	245	1,550,409,614	458,284	12,102,457	0.78%
1977	240	1,764,251,231	483,518	14,618,211	0.83%
1978	238	2,081,920,432	516,719	17,479,055	0.84%
1979	237	2,383,673,755	546,472	21,467,114	0.90%
1980	230	2,625,813,858	561,009	25,726,611	0.98%
1981	227	2,843,053,752	576,835	30,899,758	1.09%
1982	224	3,115,497,361	563,323	32,812,983	1.05%

Sources: Department of Co-operation and Co-operative Development, Province of Saskatchewan, Annual Reports; and Mutual Aid Board Annual Reports.

** 1959 Mutual Aid Board Annual Report was not available; this is only an estimate.*

APPENDIX III

MEMBERS OF THE MUTUAL AID BOARD, 1953-1983

(Includes interim appointments)

Name	Years	Office	Represented
BINGHAM, Ken	1971-74		Credit Society
BROMBERGER, Norm	1977-	Vice-chairman 1977-	Credit Society
BUNN, G. R. (Ron)	1963-67	Chairman 1964-67	League
COLPRON, Ernest	1953-63		League
DELGATTY, Bernie G.	1955-63	Chairman 1960-63	League
FOLSTAD, Dale	1982-83		Co-op Dept.
GALLAGHER, Angus	1963-66		League
GEBERT, Ed	1970-77	Chairman 1971-75, Vice-chairman 1975-77	Credit Society
GEMMEL, Harry	1966-70		League
HANSEN, Chris	1973-79	Vice-chairman 1973-75, Chairman 1975-79	Credit Society
HOWARD, A. Grant	1953-54		League
JOHNSON, Barney	1953-63		Credit Society
JONES, H.	1977-78		Finance Dept.
KEEP, Vic	1977-	Chairman 1979-	Credit Society
LAWRENCE, Henry L.	1954-60	Chairman 1955-60	League
LEWIS, C. E. (Cec)	1963-71	Chairman 1968-71	League/Society
LOKKEN, Lloyd	1975-78		Co-op Dept.
MacLEAN, A. C. (Mac)	1953-57	Vice-chairman 1953-57	Co-op Dept.
MARCOTTE, Ray J.	1968-77		League/Society
MEIKLEJOHN, Morley	1978-		Finance Dept.
MITCHELL, Grant	1981-82		Co-op Dept.
MULHOLLAND, Al	1981		Co-op Dept.
NEVILLE, Ray	1960-63		League
NIELSEN, Gordon J.	1953-55	Chairman 1953-55	League
READER, Bill	1983-		Co-op Dept.
REED, Jack	1978-81		Co-op Dept.
ROBINSON, Glen R.	1974-75		Co-op Dept.
SAMPSON, Phil	1970-73	Chairman 1973	Credit Society
SHIELDS, Jack	1963-70		Credit Society
SNELL, C. A. (Al)	1957-73	Vice-chairman 1957-73, Chairman 1963	Co-op Dept.
STEINSON, Ed	1973-74		Co-op Dept.
TENDLER, Les	1979-		Credit Society
VANIN, Sam	1974-77		Credit Society
VINEK, John	1979		Credit Society

SECRETARY-TREASURERS/MANAGERS OF THE MUTUAL AID BOARD, 1953-83

Name	Years
ERIKSEN, Michael	1953-56
NIELSEN, Gordon J.	1956-58
AVRAM, Percy	1958-59
CHARBONNEAU, G. A. (Al)	1959-65
JOHNSON, Baldur	1965-70
TENDLER, Les	1970-72
BROMBERGER, Norm	1973-77
PAVELICK, Don	1977-78
BARR, John	1978-82
WOUTERS, Peter	1982-

DIRECTORS OF OPERATIONS OF THE MUTUAL AID BOARD, 1978-83

Name	Years
DOSCH, Paul	1978-82
CUNNINGHAM, Ed	1982

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This is the story of 30 years of achievement, the fulfillment of wise planning and sound financial management."

— John Barr, former manager of the Mutual Aid Board

Dennis Schroeder has been senior writer with *Credit Union Way* magazine in Regina since October, 1981. He is a former editor and publisher of a weekly community newspaper in Ontario, and has been involved in the editorial production of numerous newspapers, magazines and books for organizations in Canada, the United States and East Africa. He has also worked as a freelance writer and researcher

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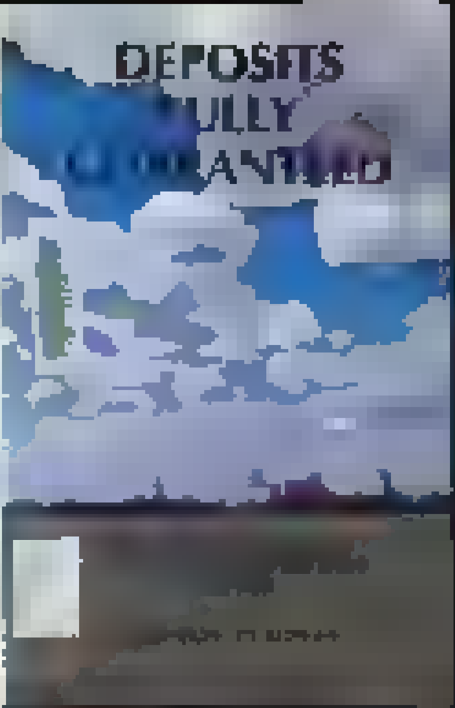

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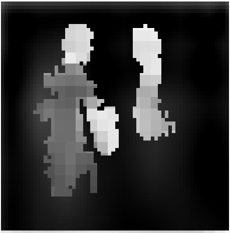

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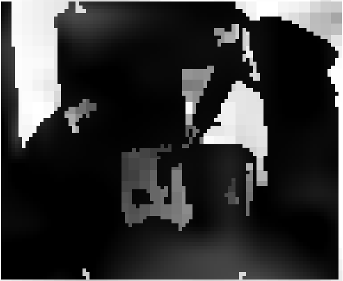

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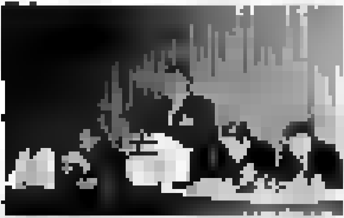

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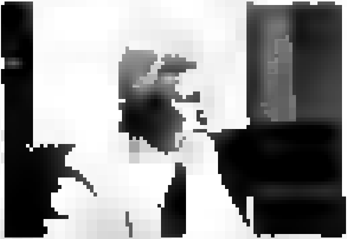

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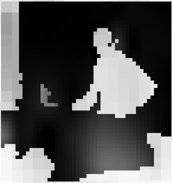

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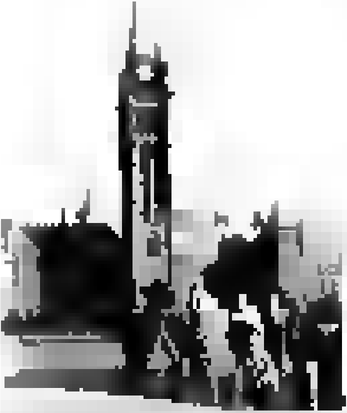

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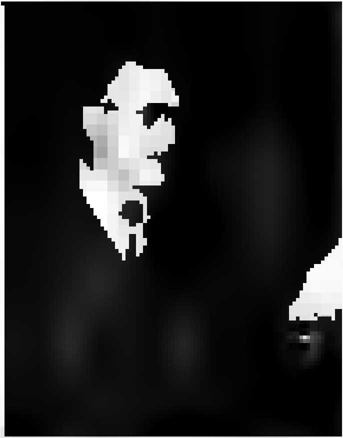

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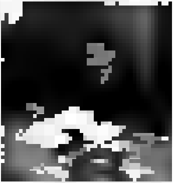

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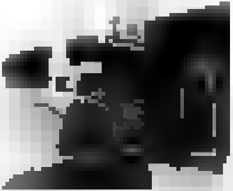

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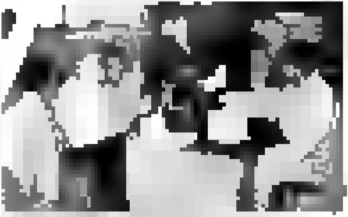

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